



Ministry of Education
Heritage & Arts



A DIRECT APPROACH

TEXTBOOK

ECONOMICS

YEAR 11

Produced by the Ministry of Education, Suva, Fiji

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PREFACE

This first edition of *Direct Approach* has been written in line with the Fiji National Curriculum Framework. It has been written to provide Year 11 students in Fijian schools with a concise analysis of basic economic concepts. It is designed as a classroom text which should be used as an introduction to the study of Economics.

The book is based on the concept of the circular flow model. It contains five strands, after Introduction to Economics; each of the other strands – Microeconomics, Macroeconomics, International Economics and Development Economics – is examined in turn. Each strand opens with a strand outcome followed by a list of learning outcomes. As new concepts and terms are introduced, they are defined and explained and reference made to specific local examples. Teachers should, where possible, extend students' knowledge by referring to current examples or significant recent economic events. Throughout the text, explanations are given in simple language to ensure understanding and to encourage students to **discover** basic concepts through their own study activities.

Tables and Diagrams are used throughout the book to encourage the development of **analytical** and **interpretive skills**.

Hopefully, this text would make the learning and teaching of Economics Studies more enjoyable, interesting and challenging

ACKNOWLEDGEMENTS

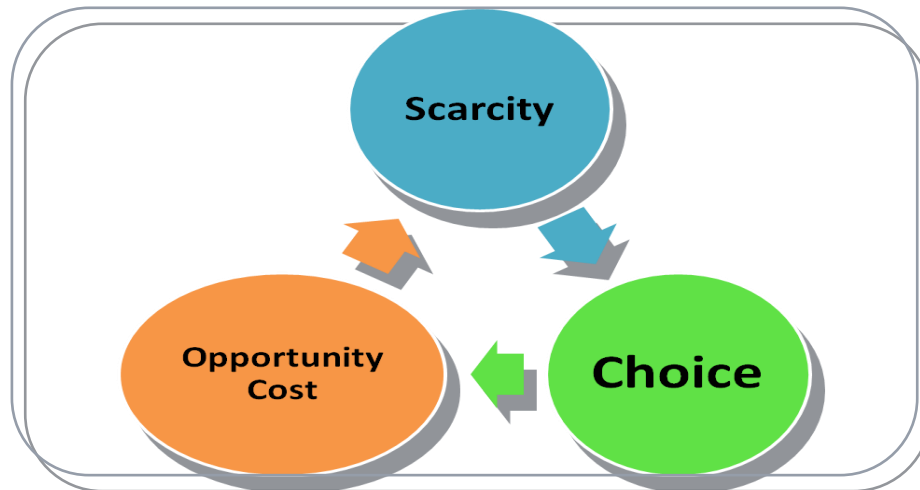
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STRAND 1**INTRODUCTION TO ECONOMICS****Strand Outcome**

Recognize, analyze and explain how people satisfy their needs and wants by managing and making optimum use of the available resources in enterprising ways with a commitment to ecological sustainability.

Learning Outcomes

Upon completion of the different lessons in this strand, students should be able to:

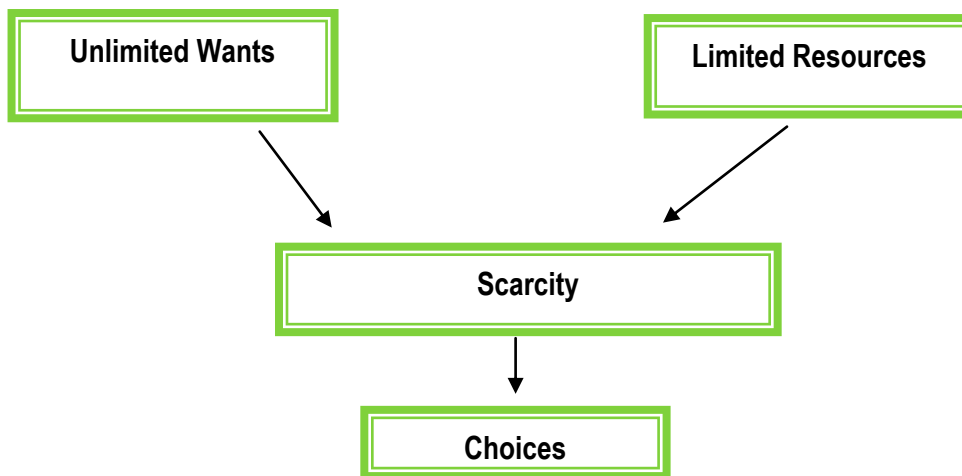
- define Economics.
- give the definition of Economics from various Economists.
- identify the fundamental economic problem and discuss the three basic economic questions.
- explain reasons for the study of Economics and its application to real life.
- illustrate the use of graphs and statistics in Economics with their limitations.
- interpret graphs.

LESSON 1.1: THE SUBJECT OF ECONOMICS

WHAT IS ECONOMICS?

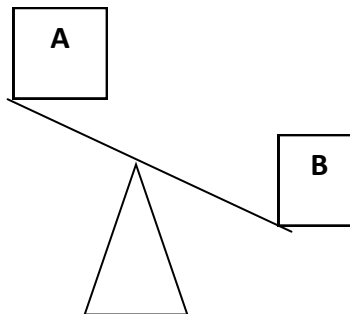
Economics is the study of the way in which individuals, groups and societies are organized to solve the economic problem. **Economics is the study of how individuals and societies choose to use scarce resources to satisfy their needs and unlimited human wants.**

The Economic fundamental problem is the scarcity of resources i.e. resources are not enough to satisfy the needs and unlimited wants of consumers.



Activity 1.1.1

1. What is Economics?
2. Complete the following diagram by filling in the boxes with the resource words below.
 - i. Unlimited needs and wants
 - ii. Limited resources

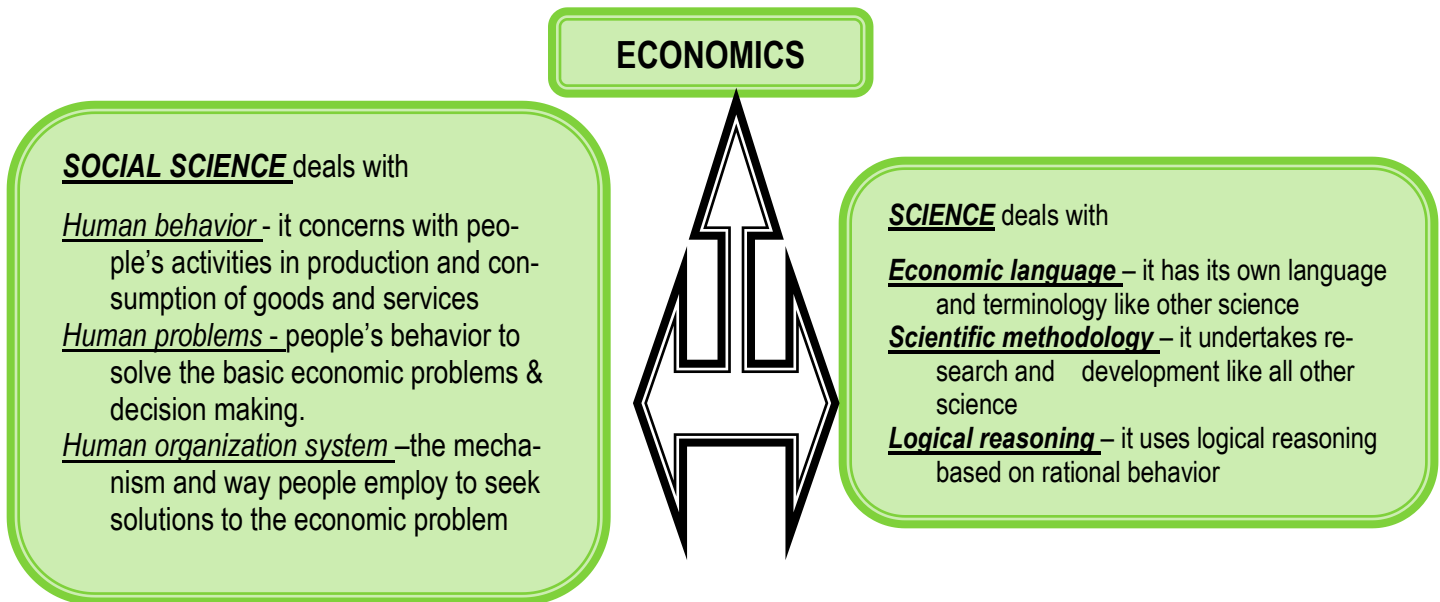


3. What is scarcity and how is it different from shortage?
4. Why does scarcity force people to make choices?
5. What does 'unlimited wants' mean to you?
6. Satisfying our needs and wants is like walking to the horizon. Explain.
7. Rich people can satisfy all their needs and wants since they have a lot of money. Do you agree? Give your reason to support the argument.

HISTORY OF ECONOMICS

- ⇒ Economics comes from the Greek word (*Oi-konomia*). It means the art of housekeeping. The Greeks were not too interested in the studying of business and economic decisions of government. They live in small city-states that had its own way of making rules and choosing government.
- ⇒ Economics as the subject originated in the 18th Century with the publications of **Adam Smith's "The Wealth of Nations"**. He is known as the "**Father of Economics**".

THE SUBJECT MATTER OF ECONOMICS



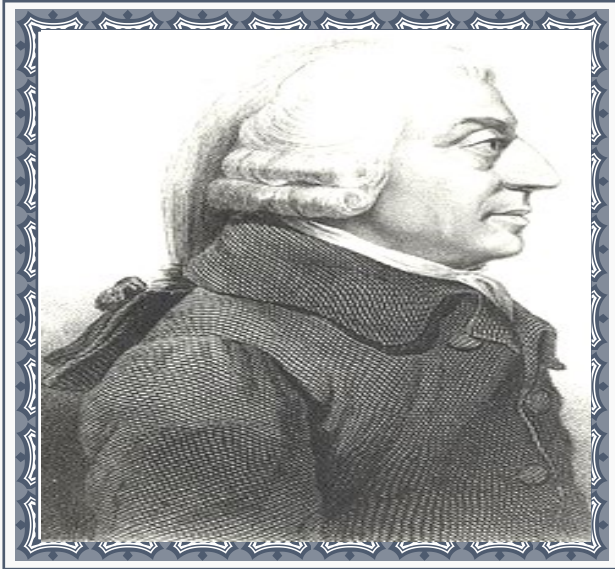
DEFINITION OF ECONOMICS BY ECONOMISTS

Economists	Economic Definitions
Adam Smith	Defined Economics as the nature and causes of the wealth of nations.
J.M.Keynes	Defined Economics as a method or a technique of thinking which helps its possessor to draw correct conclusions.
L.C Robbins	Defined Economics as the science that studies human behavior as a relationship between ends and scarce means which have alternative uses.
Alfred Marshall	Defined Economics as the study of mankind in the ordinary business of life.
P.A Samuelson	Defined Economics as the study of how people and society choose to employ scarce productive resources that could have alternative uses to produce various commodities and the distribution of the commodities among people and groups.

Source: Senior Economics 2000

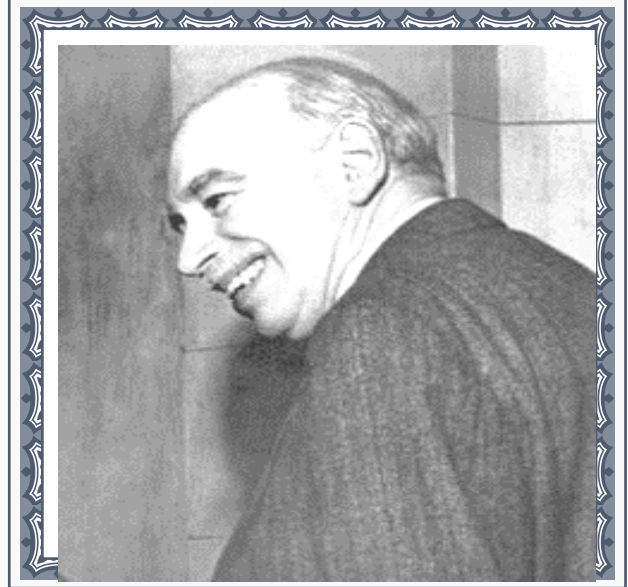
The following information and pictures from Pages 9- 11 were taken from the Internet - Wikipedia, the free encyclopedia

Adam Smith



Born	5 June 1723 Kirkcaldy, Fife, Scotland
Died	17 July 1790(1790-07-17) (aged 67) Edinburgh, Scotland
Nationality	British (Scottish)
Region	Western philosophy
School	Classical economics
Main interests	Political philosophy, ethics, economics
Notable ideas	<ul style="list-style-type: none"> ♦ Classical economics, ♦ modern free market, ♦ division of labour, ♦ the "invisible hand"

John Maynard Keynes



Born	(1883-06-05)5 June 1883 Cambridge, Cambridge shire, United Kingdom.
Died	-21 April 1946(1946-04-21) (aged 62) -United Kingdom
Nationality	British
Field	<ul style="list-style-type: none"> ♦ Political economy ♦ Probability
School / Tradition	Keynesian Economics
Contributions	<ul style="list-style-type: none"> ♦ Macroeconomics ♦ Keynesian Economics ♦ Liquidity preference ♦ Spending multiplier ♦ AD–AS model ♦ Deficit spending

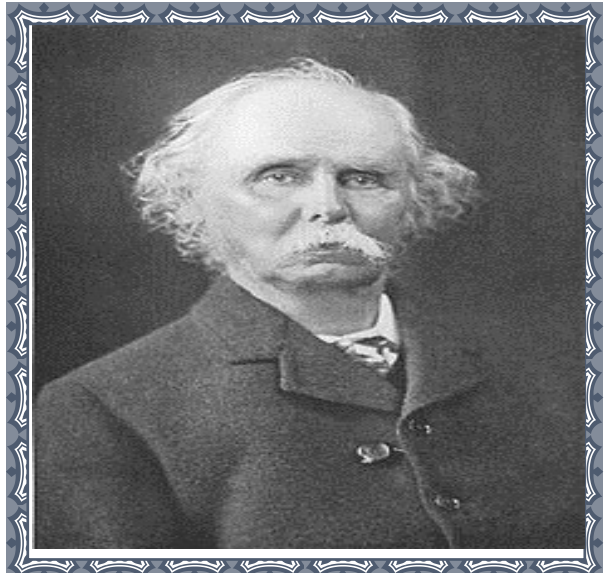
Lionel Charles Robbins



Robbins at the opening of the
Lionel Robbins building, 27 July 1978

Born	(1898-11-22)22 November 1898 Sipson, Middlesex
Died	15 May 1984 London
Nationality	British
Institution	London School of Economics
School/ tradition	Neoclassical economics
Influences	William Stanley Jevons, Philip Wicksteed, Léon Walras, Vilfredo Pareto, Eugen von Böhm-Bawerk, Friedrich von Wieser, Alfred Marshall

Alfred Marshall



Born	(1842-07-26)26 July 1842 Bermondsey, London, England.
Died	13 July 1924(1924-07-13) (aged 81) Cambridge, England
Nationality	British
School/tradition	Neoclassical Economics
Influences	Neoclassical economists, John Maynard Keynes, Arthur Cecil Pigou , Gary Becker
Founder of	<ul style="list-style-type: none"> ◆ Neo-Classical economics ◆ Principles of Economics (1890)

Paul A. Samuelson



Born	(1915-05-15) May 15, 1915 Gary, Indiana, USA
Died	December 13, 2009 (2009-12-13) (aged 94) Belmont, Massachusetts, USA
Nationality	United States
Institution	Massachusetts Institute of Technology
Field	Macroeconomics
School / Tradition	Neo-Keynesian economics
Alma mater	Harvard University, (Ph.D.) University of Chicago, (B.A.)
Influences	Keynes • Schumpeter • Leontief • Haberler • Hansen • Wilson • Wicksell • Lindahl
Influenced	Fischer • Klein • Merton • Solow • Phelps • Krugman • Stiglitz
Contributions	Neoclassical synthesis Mathematical economics Economic methodology Revealed preference International trade Economic growth Public goods
Awards	John Bates Clark Medal (1947) Nobel Memorial Prize in Economic Sciences (1970) National Medal of Science (1996)

Schools of Economic Thought

Describes the variety of approaches in the history of economic thought noteworthy enough to be described as a school of thought. While economists do not always fit into particular schools, particularly in modern times, classifying economists into schools of thought is common. Economic thought may be roughly divided into three phases: pre-modern (Greco-Roman, Indian, Persian, Islamic, and Imperial Chinese), early modern (mercantilist, physiocrats) and modern (beginning with Adam Smith and classical economics in the late 18th century). Systematic economic theory has been developed mainly since the beginning of what is termed the modern era.

Currently, the great majority of economists follow an approach referred to as mainstream economics (sometimes called 'orthodox economics'). Within the mainstream, distinctions can be made between the Saltwater school (associated with Berkeley, Harvard, MIT, Pennsylvania, Princeton, and Yale), and the more laissez-faire ideas of the Freshwater school (represented by the Chicago school of economics, Carnegie Mellon University, the University of Rochester and the University of Minnesota). Both of these schools of thought are associated with the neoclassical synthesis.

GUIDELINES FOR WRITING AN ESSAY

- *The essay should be approximately 200 – 250 words.*
- *Margin to be drawn.*
- *Question numbers are to be written (during examination).*
- *Total number of words used to be indicated at the end of the essay.*
- *There should be five paragraphs only.*
- *Introduction should just rephrase the question and give the purpose of the essay.*
- *Paragraphs 2, 3 and 4 should have topic sentences and detailed explanation of each part of the question.*
- *Conclusion should sum up the whole essay but should not introduce any new ideas or concepts.*
- *The use of diagrams and illustrations is excellent but they should be explained.*
- *Where possible, relevant local examples need to be cited to qualify the statements.*
- *Each essay question is worth 10 marks.*

Activity 1.1.2

Essay Writing

[10 marks]

‘Economics is an interdisciplinary subject’.

Discuss the above statement with reference to:

- three definitions of Economics by any three Economists. (3m)
- three reasons as to why Economics is a Social Science. (3m)
- three reasons as to why Economics is a Science. (3m)

ROLE OF ECONOMISTS

Economists help in the economic planning and development in the economy and undertake research and issues such as:

- effect of changes on tax rates
- the relationship between the level of savings and investment in the economy.
- way of reducing development problems such as unemployment, inflation, poverty, etc
- using economic theories and models to predict or explain behavior of individuals and firms in the economy.
- analyse market changes and business methods for effective decision making.

REASONS FOR THE STUDY OF ECONOMICS: APPLICATIONS AND IMPLICATIONS

- It helps us in our work since many jobs require economics knowledge. e.g. Accountants, Managers, Governments Advisors, Tax consultants etc.
- It helps us make rational decisions.
- It helps us to understand why people around us behave the way they do.

CAREER OPTIONS FOR ECONOMIC STUDENTS

One of the most popular questions asked is '***What can I do after studying Economics?***' The answer is '***Practically anything and everything***'.

The career options in Economics are endless because of the skills gained through Economics coursework which include:

- (i) be able to analytically and critically solve complex problems,
- (ii) be skilled in observation and inference from data, and
- (iii) be skillful in presenting ideas in fascinating writing and speech.

Other skills include generating or developing ideas, maintaining accurate records, assessing needs, forecasting results, writing reports, analyzing data, presenting proposals etc.

It is also very important to identify local or overseas institutions offering the different career opportunities together with other necessary information like costs and necessary personality traits.

CAREER PATHS

Listed in the table below are the various typical career paths in Economics with examples of job titles:

Career Path	Description	• Examples of Job Titles
Entrepreneurship	Economics give a broad background in economic theory and global markets which lays a great foundation for students to start their own business.	<ul style="list-style-type: none"> • Entrepreneur • Manager • Commercial Farmer
Government	The government is the largest employer in Fiji. Positions in almost every Ministries and Departments require Economics knowledge.	<ul style="list-style-type: none"> • Economist • Public Affairs Specialist • Program / Project Manager • School Teacher
International Trade	The international trade includes many different organizations engaged in a wide range of trade-related activities. These organizations are all potential employers.	<ul style="list-style-type: none"> • Export Marketing and International Sales Representative • Market Research Analyst • International Trade Specialist • International Business Development Manager • Shipping/Transport Clerk
Law	Completing Economics courses should provide students with solid analytical and critical thinking skills necessary for a successful career in law.	<ul style="list-style-type: none"> • Lawyer
Marketing and Retail	Marketing professionals work with a product that has specific features and benefits, create pricing and promotional strategies and manage the process to get the product in the market. The retail industry offers careers in marketing strategy, merchandising, e-commerce, product management, buying, product development, loss prevention, logistics, distribution and digital operations.	<ul style="list-style-type: none"> • Survey Researcher • Store Manager • Consumer Business Analyst • Marketing Analyst • Sales Representative

Career Path	Description	Examples of Job Titles
Culture	Cultural sector consist of the arts, heritage and creative industries. Cultural economics uses the analysis of economics and applies it to the cultural sector. Cultural Policy seeks to achieve certain goals by guiding the direction of the cultural sector.	<ul style="list-style-type: none"> • Cultural Statistician • Cultural Researcher • Entrepreneur-Cultural Goods • Cultural Heritage Officer • Market Researcher • Heritage Site Manager
Public Policy	Deals with analyzing problems, seeking solutions, advocating for change and decision making.	Policy making in these areas : Education, Environment, Immigration, Public Finance, Water, Agriculture, Government, Health, Housing, Economic Development
Real Estate and Urban Planning	This is not only about selling a property. This involves the entire development process from acquiring land for the building to the final construction details. It also involves mortgage lending and residential & commercial brokerage.	<ul style="list-style-type: none"> • Real Estate Development Researcher • Urban Planning Research Assistant • Mortgage Specialist • Real Estate Broker • Sales Agent • Property Manager • Real Estate Valuation Associate • Asset Manager • Cost Analyst
Business, Banking and Finance	Deals with understanding the decisions of businesses, consumers and current economic issues by developing a systematic and thorough knowledge of how economic systems operate. Includes the mechanisms by which resources are allocated, prices determined, income redistributed and economic growth promoted.	<ul style="list-style-type: none"> • Asset Manager • Cost Estimator • Trust Officer • Economic Analyst • Financial Advisor • Consultant • Sales Representative • Operations Analyst
Economic Development	Deals with improving the well-being of a community through efforts that entail job creation, job retention, tax base enhancements and quality of life.	<ul style="list-style-type: none"> • Housing Development Aide • Regional/Town Planner • Economic Development Coordinator • Public Utilities Manager • Economic Analyst • Project Assistant

Activity 1.1.3

1. Who is an Economist? Describe two roles played by any Economist?
2. Explain three reasons why we need to have Economics knowledge?
3. Research on the following job titles: Economist, Real Estate Broker and Heritage Site Manager. The following are to be considered in the research work:
 - i) Minimum qualification requirement (MQR)
 - ii) Cost of obtaining the above qualification
 - lii) Best Local Tertiary Institutions offering training.



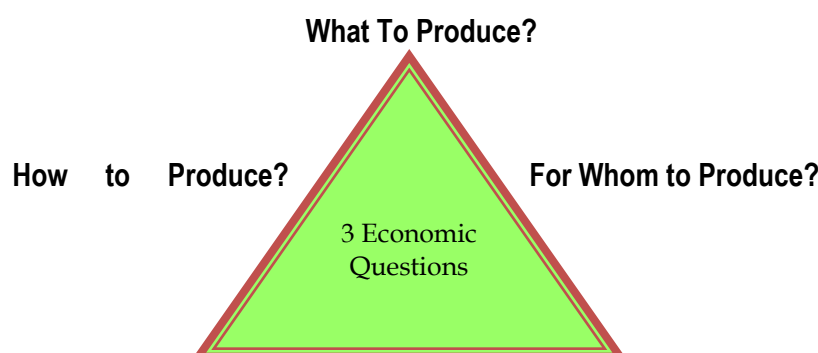
LESSON 1.2 : ECONOMIC PROBLEM

The economic problem is the scarcity of resources. Resources are limited in relation to our wants. Hence a choice must be made. Making a choice involves making a sacrifice. In Economics this is referred to as opportunity cost.

Opportunity cost – is the cost of the next best alternative foregone. Also referred to as real cost.

THREE ECONOMIC QUESTIONS

Since there are not enough resources to satisfy all our needs and unlimited wants, people of any nation/country/economy must decide on what ways they shall allocate their resources to satisfy needs and unlimited wants.



1. What to Produce?

The economy decides on the nature of production and the quantity of goods and services. i.e. capital goods or consumer goods.

Questions

Should resources be used to produce more capital goods or more consumer goods?

Should more of our resources be allocated towards eliminating poverty or buying more guns?

2. How to Produce?

This involves the combination of various methods and techniques used to produce goods and services.

Questions

How shall our resources be used?

Shall we use more labour or more capital?

3. For Whom To Produce?

This involves the distribution of goods and services to consumers in the economy.

Questions

- Who are we making the goods and services for?
- How shall they be distributed?
- Who shall buy them and at what price?

ECONOMIC SYSTEMS

It is a method by which a society answers the three economic questions of what to produce, how to produce and for whom to produce. There are four types of economic system and they are: Traditional economy, Mixed economy, Command economy and Free market economy.

There are two broad criteria used in classifying economic systems and they are:

- the degree of central planning;
- the ownership of productive resources.

Most Economists recognize three basic forms of organisation or three basic types of economic systems and they are traditional, market and centrally planned.

The Degree of Central Planning

Traditional Economy

A traditional economy is one in which the customs and culture of the people, their social and religious traditions, determine the way of life and the organisation of production and distribution. People produce almost entirely for survival and their own consumption purposes.

Market Economy

Decision making is decentralised, that is, decisions are made independently by groups and individuals in the economy rather than by a system of central planning.

- What to produce and how much is produced are decided in the market by consumers, firms and government. Consumers influence by the way he spends his income or through *consumer sovereignty*. Firms also attempt to influence by offering the good for sale and by using various *marketing strategies* such as advertising.
- How to produce is mainly decided by the business firms. The incentive to produce is the opportunity to make a profit or the *profit motive*.
- For whom to produce is determined by the relative ability of consumers to pay for the goods and services produced.

Command Economy

A command economy is an economic system where the main economic processes of resource allocation and production are determined by a centrally planning authority which implements society's common goals.

- What to produce and how much to produce are determined by the centrally planning authority through its various agencies.
- How to produce is also determined by the central planning authority. Most non-human resources (natural resource – land and artificial resource – capital) are state owned and they are allocated according to a central plan.
- For whom to produce is also determined by the central planning authority. Prices are often fixed by central planners to encourage or discourage consumption.

The Ownership of Productive Resources

The focus here is the ownership of non-human productive resources.

The main forms of property ownership are private, collective or group and state.

Private Ownership - ownership vested in the hands of one or more individuals.

Collective Ownership – property rights are vested in the hands of the particular productive organisation e.g. Collective farm in Fiji.

State ownership – property rights are vested in the hands of the state or government.

Activity 1.2.1

Part A Multiple Choice

1. Economics is the study of
 - A. investment in the Stock Market.
 - B. how business firms make profit.
 - C. how businesses keep their accounts balanced.
 - D. how scarce resources are used to provide wants and needs.
2. Which Economist defined Economics as the study of mankind in the ordinary business of life?
 - A. Adam Smith.
 - B. J.M Keynes.
 - C. Alfred Marshall.
 - D. L.C Robins.
3. Economics is social science in the sense that it deals with
 - A. investing successfully on the stock exchange.
 - B. the allocation of society's scarce resource.
 - C. establishing and running a profitable business firm.
 - D. sound accounting and financial management practices.
4. All societies face the problem of choice because
 - A. resources are limited relative to wants.
 - B. wants are limited relative to resources.
 - C. prices are often too high for many consumers.
 - D. wages are often too high manufactures.

Part B : True or False

1. Study of human behavior has nothing to do with Economics or Economists _____
2. Economics concerns itself with relationships between human organization structures. _____
3. Economics is regarded by many as a pure science as it follows scientific method. _____
4. Modern Economics is based on two fundamental concepts – scarcity and choice. _____
5. The economic problem is the problem of choosing between alternative resources. _____

Part C : Short Answers

1. What is opportunity cost?
2. What are the two broad criteria that can be used to classify economic systems?
3. What is meant by traditional economy?
4. What are the main characteristics of a centrally planned or command economy? How are the main functions of an economic system performed in a planned economy?
5. What are the main characteristics of a market economy? How are the main functions of an economic system performed in a market economy?

Short Answers

Study the information given below to answer the following questions

Every society tries to answer the questions of WHAT, HOW and FOR WHOM.
Economic Systems generally fall into one of four categories:
traditional, command, market and mixed market economies.

- a) Discuss how and why the problems of What, How and For Whom exist.
- b) Explain briefly:
 - i) how the market economies answer the question of 'How'
 - ii) how the command economies answer the question of 'What'
 - iii) how the price mechanism answers the question of 'For Whom'

Fill in the Blanks

Complete the following sentences by filling in the blanks in the Answer Book.

This economic system is also known as the _____. Under this type of system, _____ exist because the consumers have the power to determine the level of production.

Essay Writing

- a) 'Mixed Economic Systems are characterized by interdependence, specialisation and the use of money as the medium of exchange'.

Discuss the statement given above and in your discussion include:

- three features of the mixed economic system; (3 marks)
- the role of specialisation and interdependence in this system; (3 marks)
- the role of money as a medium of exchange. (3 marks)

- b) Compare and contrast the free market economic system with that of traditional economic system in terms of:

- resource ownership and allocation; (3 marks)
- decision making units; (3 marks)
- distribution of goods and services. (3 marks)

- c) Choose an economic system that you have studied and discuss the following:

- three features of this economic system; (3 marks)
- three problems associated with this system; (3 marks)
- three effects of this system on the individual. (3 marks)

LESSON 1.3**ILLUSTRATIONS OF STATISTICS AND GRAPHS USED IN ECONOMICS****WAYS OF GATHERING INFORMATION**

Information, data or statistics can be gathered from so many media sources which include:

- i) Print media e.g. newspapers, books, magazines, billboards, newsletters, posters, stickers
- ii) Radio e.g. Radio Fiji, Radio Hapi Isles (Solomon Is), NBC (PNG), VandAB (Marshall Is) etc.
- iii) Television e.g. Fiji One, CITV (Cook Is), Tuvalu TV, Televis Samoa, Sky, CNN etc.
- iv) Multimedia e.g. websites, video games, live performances

Mass Media or media refers to the channels or ways we communicate.

After information, data and statistics are gathered from the above sources, they are interpreted or analysed in the form of graphs, tables or even models to make them useful and assist in decision making.



Source : www.google.com

GRAPHS IN ECONOMICS

A Graph is an illustration which shows relationship between two or more economic variables. A Graph is a convenient and rewarding means of presenting information.

In Economics, graphs help us to:

- ♦ present economic relationships and principles.
- ♦ display information.
- ♦ analyze and interpret data over a period of time.
- ♦ forecast trends [project what is expected in future].
- ♦ show the performance of various sectors in the economy.

USES OF GRAPHS

Graphs are used in Economics to give a picture or show certain relationships between economic variables. They illustrate economic theories and models that make easy reference and understanding of the real world. 'A graph is worth a thousand words' means that without graphs, we will have to rely exclusively on words to explain economic principles.

LIMITATIONS OF GRAPHS

The following limitations will lead to **misleading** interpretations:

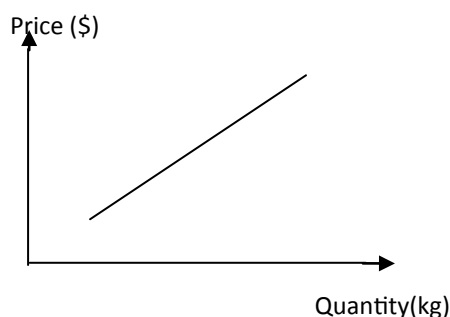
1. Discontinuous measurements.
2. Incorrect labeling.
3. Inconsistency in scaling (equi-distance).
4. Missing or improper titles.

EXAMPLES OF GRAPHS

Line Graph or Linear Graph

A line graph shows the change in the same item over a period of time.

Supply Curve for Ginger



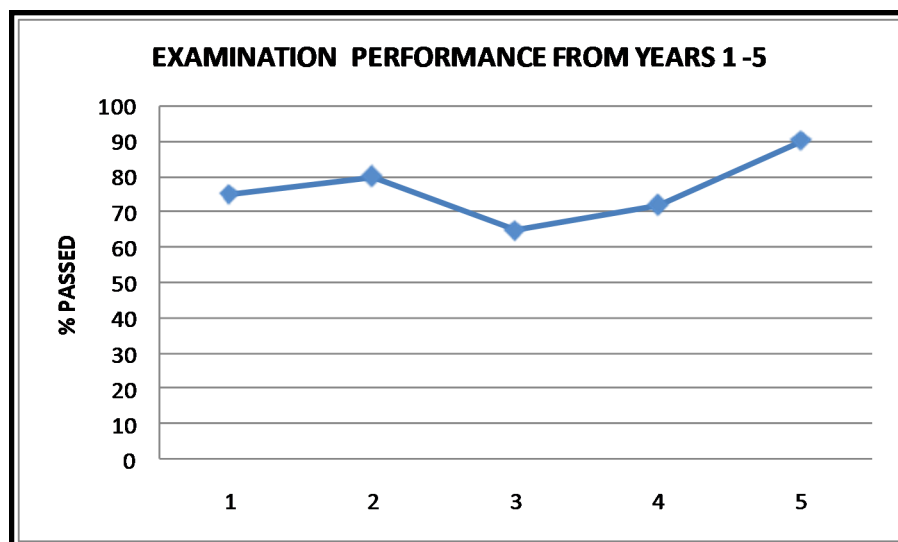
Points to Note

When drawing graphs, note the following very important points :

- i) Title : all graphs should have a title. A graph without a title has no meaning.
- ii) Both axis should be labeled
- iii) Intervals should be consistent along the axis, both in terms of spacing and value.
- iv) Intervals along the axis should be marked by a small stroke.
- v) Origin should be marked zero (0)
- vi) Always draw with a pencil.

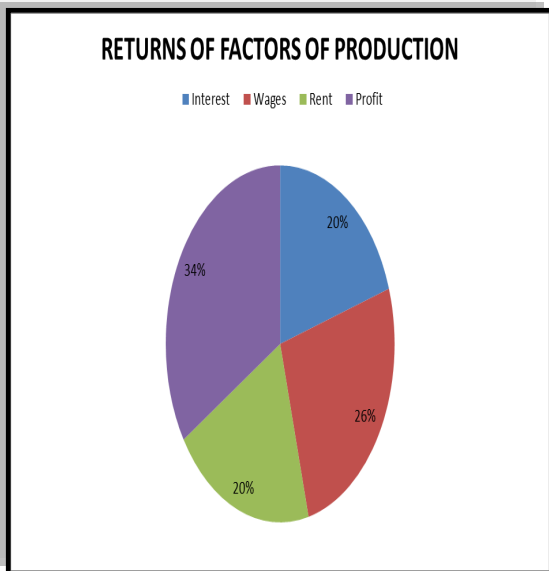
Time Series Graph

Years	Percentage Pass
1	75
2	80
3	65
4	72
5	90



3. Pie Chart

Pie Chart showing Factor Incomes [\$500 000]



Pie Chart

A Pie-Chart is also called a Circle Graph and it is a very effective way of showing breakdown of items expressed in dollar value or as percentages.

The complete circle represents 100% or 360° and each segment shows a percentage of the whole.

Bar Graph (refer to No. 3 below)

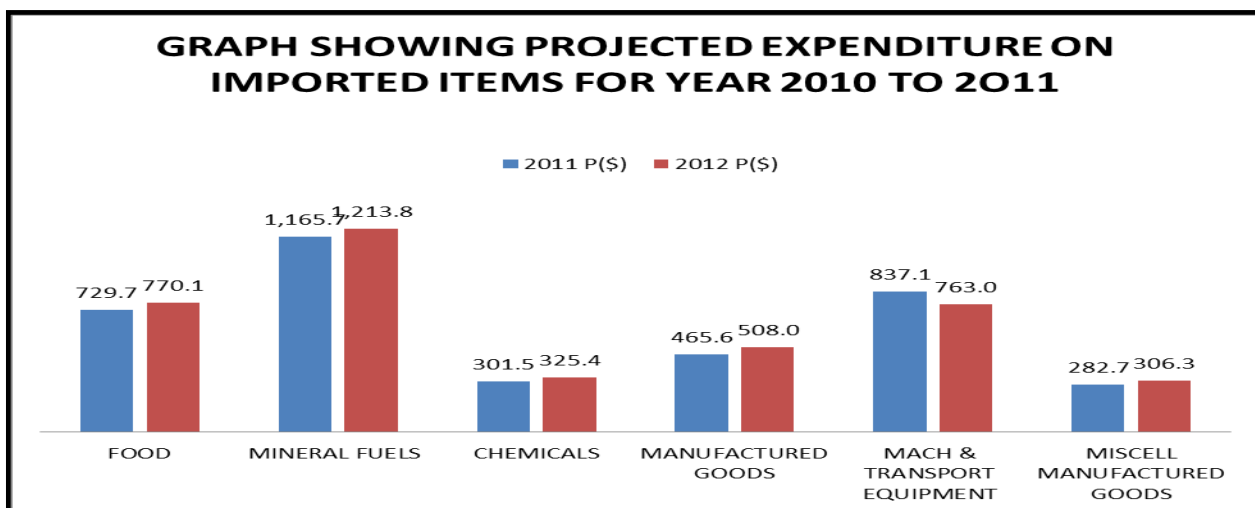
Bar graphs usually compare differences between things at one point in time.

They are used for comparison of figures and the bars could either be horizontal or vertical.

4. Bar Graph

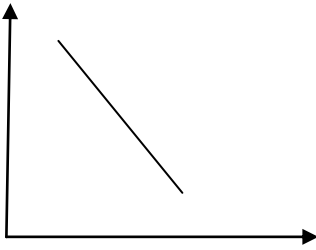
Imported Items

IMPORTED ITEMS	2011 P(\$)	2012 P(\$)
Food	729.7	770.1
Mineral Fuels	1,165.7	1,213.8
Chemicals	301.5	325.4
Manufactured Goods	465.6	508.0
Mach & Transport Equipment	837.1	763.0
Miscell Manufactured Goods	282.7	306.3

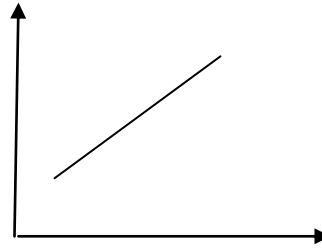


Four Different Types of Slopes of A Straight Line Graph

1. Negative Slope



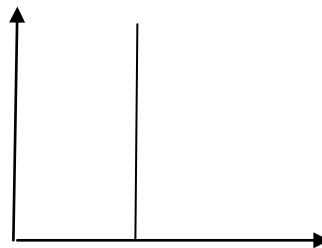
2. Positive Slope



3. Zero Slope



4. Infinite Slope



Positive Or Direct Relationship	Where an increase in one variable will lead to the increase in the other variable. E.g. supply curve.
Negative or Inverse Relationship	Is where an increase in one variable will lead to the decrease in the other. E.g. demand curve
Dependent variable (Effect or Outcome)	Is a variable that changes because of a change in the other variable. e.g. consumption expenditure is dependent on the level of income.
Independent variable (The Cause)	The variable that causes the changes in the dependent variable

Activity 1.3.1

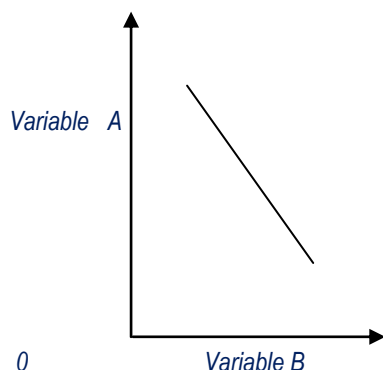
A. Why is Economics classified as a social science?

B. The following table gives a relationship between x and y

1. Plot the coordinates of X and Y and draw a Line graph.
2. Is there is a positive or negative relationship between the variables?

Value of X	Corresponding value of Y
1	4
2	6
3	8
4	10
5	12

Use the graph given below to answer No. 3



3. The relationship between Variable A and Variable B is
- direct.
 - positive.
 - inverse.
 - non-linear.
4. Graphs cannot be misleading when
- measurement is continuous.
 - only part of the variables are presented.
 - scales along the axis have been changed to look bigger than they are.
 - two or more variables are drawn to show same facts using different scale.
5. If two factors show an indirect relationship on a graph, this signifies that
- as one factor rises, the other factor falls.
 - both factors are rising.
 - both factors are falling.
 - both factors are not related.
6. A limitation of the use of graph in Economics is that graphs do not
- forecast trends.
 - consider more than two variables.
 - consider time as an important factor.
 - illustrate cause and effect relationship.

Short Answers

7. What do you understand by the term 'Media Literacy'?

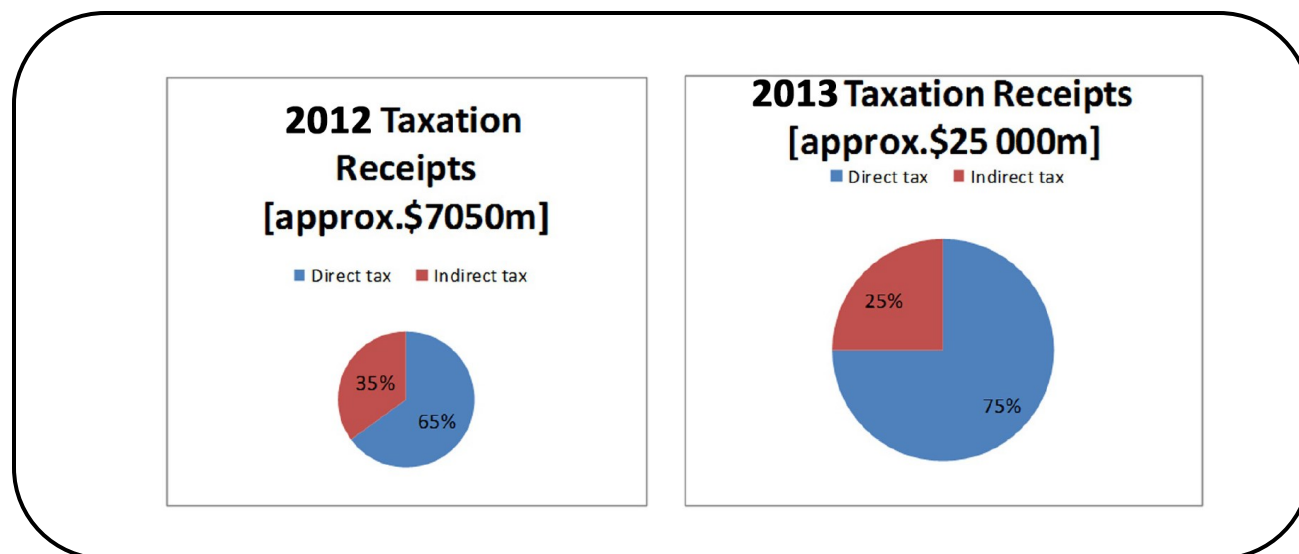
Research Work

8. Conduct an investigation on the different local media sources by looking at the following:
- Examples of local media sources
 - Advantages and disadvantages of each local media sources
 - Pictures/Images relating to each media source.

Activity 1.3.2

Problem Solving

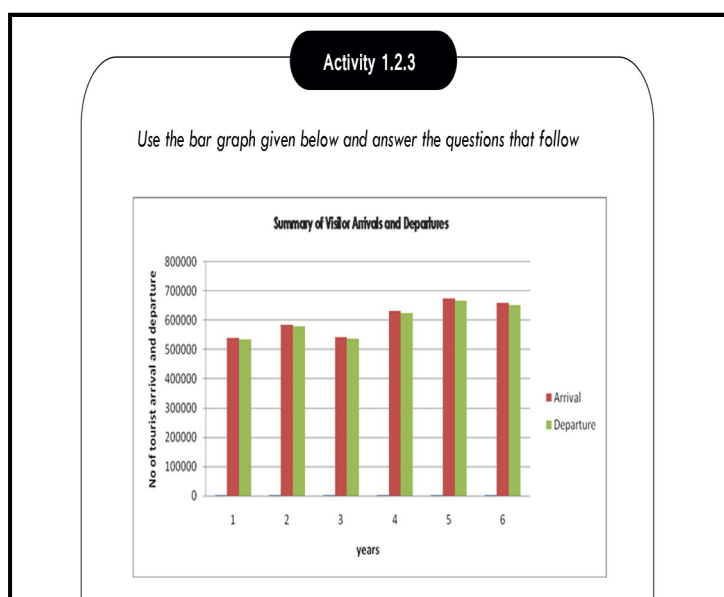
Use the pie charts given below to answer the questions that follow:



- What do the pie charts given above show?
- Calculate the total value of direct tax for year 2012.
- Calculate the total value of indirect tax for year 2013.
- State examples of direct and indirect tax in Fiji.

Activity 1.3.3

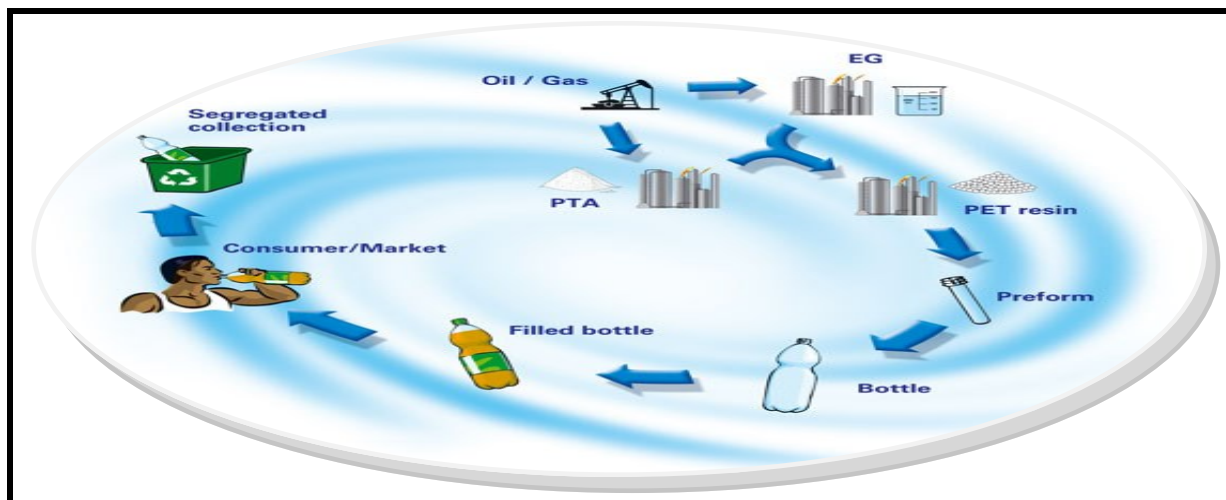
Use the bar graph given below and answer the questions that follow



- What does the graph given on the left show?
- Which year Fiji had the highest number of visitor arrivals in the country?
- Describe the trend of visitor departures as shown in the graph.
- What does the graph given above show?
- Which year Fiji had the highest number of visitor departures?
- Describe the trend of visitor departures as shown in the graph?

STRAND 2

MICROECONOMICS



Strand Outcome

Investigate the interaction between producers and consumers and evaluate their impacts on the production of goods and services.

Learning Outcomes

Upon completion of the different lessons in this strand, students should be able to:

- identify personal ,financial planning for possible disruption on earning an income
- identify the external factors affecting different income levels and lifestyle.
- determine future income needed to maintain the current standard of living by using different calculation method.
- calculate the net worth of a family as well as the value of intangible asset.
- identify different types of credit facilities offered to customers in Fiji
- identify the purpose and use of credit.
- evaluate credit history and credit records to make informed decisions about the arrangement of credit.
- explore sources of credit advice offered by agencies available in another country.
- state the impacts of engaging to debt or credit.
- define production and identify production cost.
- differentiate and calculate economic and accounting profit.
- list the importance of agriculture and mining to Fiji's economy.
- identify the nature and production of agriculture and mining.
- describe agriculture productivity in terms of labour versus capital.
- list the importance of diversification in agriculture.
- identify the problems associated with mining and agricultural production in Fiji.
- investigate Government strategies and policies implemented to curb agricultural and mining problems.
- describe how the market system determines equilibrium price and quantity.
- explain the effects of price ceiling and price floor.

LESSON 2.1: CONSUMER AND CONSUMPTION

PERSONAL FINANCE

To satisfy needs and wants, consumers need to have income to buy the necessary goods and services. Income is money received from working, selling goods and services or from other sources.

There are two types of Income :

- ♦ Earned Income – is the sum of all wages, salaries, profits, commission, fees and other forms of earning received from work in a given period of time.
- ♦ Unearned Income – refers to income that is not a salary or a wage. It includes government benefits (such as Social welfare income), interest, dividends or capital gains from investments, rent from land or property ownership and any other form of income that does not derive from work.

OTHER PERSONAL INCOME CAPABILITIES / ALTERNATIVE FORMS OF INCOME

a) Rent

Income received by owners of properties for rental purposes. Normally earned by landowners or land lord.

b) Dividend

The return on investment or the portion of company's profit paid to shareholders depending on the number of shares the shareholder (owner of a company) holds.

Example:

Investments in Unit Trust of Fiji, Fiji National Provident Fund or any other listed Companies on the South Pacific Stock Exchange (SPSE).

c) Royalty

Income received for the usage of Intellectual Properties such as singing and land use. Normally received by authors, musicians, landowners etc.

Example:

Income from Quarry (extracting of stones from the earth) at Kalabu and income received by the Dokidoki Group from all their songs composed, recorded and used.

d) Interest

Income received from money lent.

Example:

Income received by banks and other financial institutions from money lent to customers.

(e) Enterprising Skills

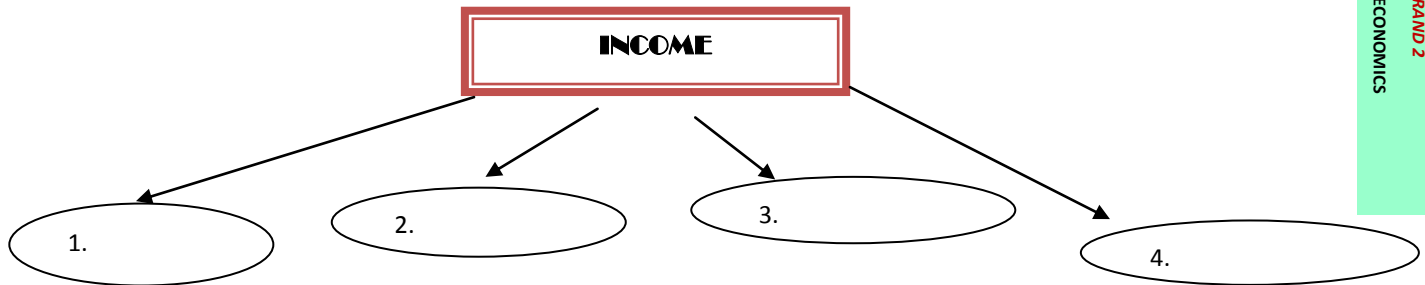
Setting up small businesses which will allow individuals to use their skills in order to earn some form of revenue.

Example:

Activity 2.1.1

Short Answers

1. Identify 4 alternative forms of income in your own locality



1. What does the term 'Income' mean to you?
2. Why do we need income?
3. What are the two types of Income?
4. Use the internet, newspaper, magazines and other resource materials to identify various sources and examples of income. Present your findings.
5. What is an income decision?
6. Give three examples of income decisions, three examples of savings decisions and three examples of debt reduction decisions.
7. What might a typical household income be made up of?
8. Describe how your household would survive without having an income to satisfy needs and wants.

Case Study

1.

Marina works full time at the local area council office as a Clerical Officer. She earns a salary of \$15 000 a year. Her husband Samuela is a Shift Supervisor and usually works nights at a furniture assembly plant. He is paid \$700 a fortnight. They have a car which was on loan for which the repayments are \$87 a week. They also have a mortgage on their house of \$75 a week. The mortgage will run for another 15 years before the house is paid off. They have three teenage children.

- A) Identify two features associated with relying on two incomes for the family budget.
- B) Explain one risk associated with each of these features.
- C) Suggest two changed circumstances this family might encounter.
- D) For each circumstance, identify the impact of the change and a possible solution or adjustment that could be made.

2.

Liliana and Elik both did well at school and planned to become teachers. Elik goes straight to University, borrows money to do so and after three years starts teaching. However, Liliana does not want to borrow a lot of money to do her tertiary studies so she has a 'gap' year, working in a shop. She aims to save some money so that she has to borrow less for studying. She then completes her university degree after three years and became a Teacher.

After four years teaching, which of the two is likely to be better off? Explain the reason of your choice.

Reflection

Why is it illegal to copy music from CD's, concerts and websites without permission? Do you think this is fair?

GOAL

A goal is a desired result a person plans and commits to achieve. It is roughly similar to purpose or aim.

- A goal can be a short term or long term. It represent ones ambitions, dreams and is based on individual values.

As a person goes through the different stages of life, goals and expectations changes which may have financial effects. One may experience significant life events, some of which may be 'Income Shocks'. Some events are expected while some are unexpected. All however can be planned for in order to respond to challenges that lie ahead. There are different types of goals – to name a few, they are financial (e.g. buying a new gadget), social (e.g. learn to speak another language), lifestyle (e.g. travel to USA to meet the President) and career goals (e.g. owning my own business).

Plans / Steps in Achieving Career Goals

1. Choose a career.
2. Set goals in achieving the career.
3. Plan and develop a schedule towards the achievement of goals.

Achieving a goal requires positive goal setting. Think about a pathway for the achievement of the goal; identify prerequisites and the steps along the way. To be achieved, goals need to be **SMART**.

Activity 2.1.2

1. Goals are dreams with deadlines.
 - a) Explain what the statement means.
 - b) Think about a goal that you have already achieved. Write down what you did to achieve that goal. Share it to your peers or colleagues.
 - c) Why do you think goals are important while managing your money?
2. Goals need to be **SMART**. What does SMART stand for? [Clue : Recall Year 9 and Year 10 work]
3. Choose a career goal and develop a plan and timetable for you to achieve it. Write your career goal as a SMART goal and use the template below to develop your career plan and timetable.

SWASTIKA

Age : 26 years

Location : Lives in Navua

Current circumstances : Living at home with parents having a full time employment

Education : Trained and qualified nurse

Initial Goal : To save \$2 000, travel abroad and experience Australia by working and living there for a while.

Time Frame

Initially wanted to leave Fiji within 6 months. Realistically it will take 12 months

Short Term Action Steps : Set up a saving plan

- Look at ways of increasing monthly income (extra work, sell my car)
- Look at ways of spending less (spend less time with friends)

Research and Information Gathered

- Spoke with a friend who had just applied for a visa to work in Australia. Realise it took 6 months to get so had to extend time frame of initial goal.
- Called the Australian High Commission in Fiji to find out about the entry and visa requirements.
- Obtained information from the Bank, FRCA and previous employers for the Visa.
- Researched using websites and online social notice boards to chat, take part in forums and discussions.
- Compare information from a variety of sources
- Looked at the cost of airfares through the web and visiting travel agents.
- Researched on the cost of accommodation, living expenses and transport in Australia.
- Researched the kind of employment opportunities and income levels given her age and experience whilst over there.

COMMITMENTS THAT AFFECT PERSONAL INCOME

Cultural obligations.

Religious activities.

Family commitments.

Educational commitments.

Other financial commitments such as Hire Purchase, Mortgage/ Loan repayments.

IMPACT OF CHANGES IN PERSONAL INCOME

Decrease level of savings.

Decrease in ability to invest.

Decrease in disposable income.

Decrease in the ability to purchase more goods and services (Real Income)

Activity 2.1.3

1. Identify 6 external factors and state its impact on current income, future income with possible contingency plans to assist individuals.

Scenario	Possible Impact on Current Income	Possible Impact on Future Income or Spending Potential	Possible Contingency Plan (Plan "B")
1. Personal income tax rates in Fiji increase.	-Net income decreases, which reduces individual's personal income.	- Reduced standard of living. -Difficulties in meeting certain family obligations.	
2.			
3.			
4.			
5.			
6.			

2. What kind of income and lifestyle would you like to have after you retire from your job at the age of 55? Work out a plan of how you will achieve your dream income and lifestyle. Present your findings.

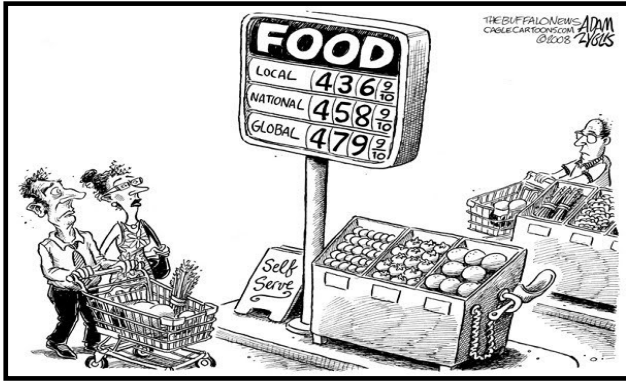
EFFECTS OF DECISIONS MADE ON PERSONAL INCOME

- With taking up more financial commitments, the level of disposable income will decrease leaving less opportunity for savings and investment, thus, a decrease in Real Income.
- However, being economical and financial conscious we should be able to leave enough money for savings and investment as a result of increased disposable income.

EXTERNAL FACTORS AFFECTING INCOME LEVELS AND LIFE STYLES

1. Change in government policies.
2. Global market changes.
3. Cultural obligations.
4. Religious activities.
5. Educational commitments.

Activity 2.1.4



1. What does the cartoon illustrate?
2. Explain the concept of *decrease in the purchasing power of the dollar*.
3. Describe the effect of inflation on income.

FINANCIAL CALCULATION TO DETERMINE FUTURE INCOME

Budget

A **budget** is a plan of how to use income. It contains a list of estimated income and expenditures for a specified period of time.

Steps in Preparing a Budget

1. Determine the time period which could be in weekly, fortnightly, monthly or yearly basis.
2. Identify sources of income and calculate the level of total income.
3. Identify and classify expenses into fixed and variable and calculate the total.
4. Compare income with expenses to calculate savings or deficit.

Activity 2.1.5

Nancy works as a computer assistant and earns \$200 a week. Her husband James is a mechanic and he earns \$500 a month.

The expenses for Nancy and James are:

	\$
Food and clothing	50 per week
Travelling	25 per week
Electricity	30 per month
Hire purchase	50 per month
School fees	200 per year
Insurance	45 per fortnight
Entertainment	10 per week

Prepare a yearly family budget for Nancy and James.

Activity 2.1.6

Vinnie works as a computer assistant and earns \$300 a week. Her husband Norman is a mechanic and he earns \$400 a month.

The expenses for Vinnie and Norman are:

	\$
Food and clothing	60 per week
Travelling	20 per week
Electricity	50 per month
Hire purchase	100 per month
School fees	250 per year
Insurance	50 per fortnight
Entertainment	15 per week

STRAND 2
MICROECONOMICS

Prepare a monthly family budget for Vinnie and Norman.

Activity 2.1.7

Given below is the November Budget for the Attu's Family.

Income	\$	\$
Attu's salary	800	
Rent for month of November	<u>300</u>	1 100
Less Expenses:		
Food & clothing	150	
Travelling	75	
Power bill	100	
Mortgage payment	200	
Medical	250	
Hire purchase	175	
Credit card payment	70	
Insurance	\$ 40	\$ 1 060

Required:

Use the information in Attu's family budget and answer the question given below

1. Classify the above expenses into fixed and variable expenses.
2. Calculate the amount of fixed expenses and what percent of the budget is represented by fixed expenses.
3. Calculate the amount of variable expenses and what percent of the budget is represented by variable expenses.
4. Calculate the amount of saving for Attu's family for the month of November.

FACTORS AFFECTING NET WORTH OF A FAMILY

- With the use of Statement of Affairs, the total Net worth of a household can be extracted from the comparison of total assets and liabilities.
- Intangible assets such as location of properties, brand names of personal assets can influence the Net worth of a family a lot.



Activity 2.1.8

Multiple Choice Questions

- Which of the following best describes the most likely main source of income of those aged 15 – 35?
 - Salaries and wages
 - Dividends and interest
 - Rent
 - Profits from business
- A person who is over sixty-five is likely to get most of their income from?
 - Rent from property
 - Salaries and Wages.
 - FNPF plus some investment income.
 - Business profits.
- Retirement income received from a company is called
 - social security
 - Private superannuation
 - FNPF
 - A pension
- Which of the following is not likely to make a person's finances harder to manage?
 - Marriage
 - A new baby
 - A long-term illness
 - Divorce

Reflection

CREDIT FACILITIES

Types of Credit Facilities in Fiji

- Unsecured bank loans (Soft Loans)
- Secured bank loans (Term Loans)
- Property loans
- Money lenders
- Credit Unions
- Micro-Finance
- Loans from family and friends

Purpose of Credit

- To purchase personal assets or properties
- To meet family commitments and other financial obligations.
- To finance religious and educational commitments.
- To allow avenues for savings and investment.

Evaluation of Credit History and Records

In order to determine the credit worthiness of individuals, credit providers obtain credit history of consumers from the Data Bureau. This Data Bureau began its operations in Fiji in 2001 and to date it has 100% membership of all financial markets, hire purchase companies and all major credit companies.

Activity 2.1.8

Use the information given in the Resource List and fill in the blanks in the sentences given below.

Hire purchase	lay by	credit	cash purchase
Monthly account	caveat emptor	credit worthiness	Interest

- _____ is buying the things that appeal to you but you don't really need it.
- Ability to pay debt means _____
- _____ is where you pay cash and take the good home.
- When you buy on _____, you pay a deposit to enjoy the benefit of the good and the balance is paid in regular installments.
- _____ means let the buyer be aware
- Buying on credit usually means you pay the store more than the price of the good. The difference is the _____
- Under _____ the possession of the good remains in hands of the seller until full payment is made.
- _____ is buying thing which are expensive to impress others.
- This form of credit buying is where the customer pay for good s and services bought on credit at the end of the month _____.
- _____ buying is where you take the good home and pay later.

CREDIT AGENCIES AVAILABLE

Visa Cards

Credit Agencies in Overseas Countries

D & B (Dun & Bradstreet Credit Agencies in Australia and New Zealand)

- Provides the most in-depth and predictive credit reports on millions of consumers in Australia and New Zealand.
- Provides comprehensive credit data on business owners, directors and sole traders, allowing you to integrate commercial and consumer data when required.

D&B provides four types of credit reports:

- Public Record Enquiry
Provides bankruptcy, judgment and summons data to gain a clearer picture of past credit outcomes.
- Individual Adverse Enquiry
Provides bankruptcy, judgment, summons data and credit defaults to gain a clearer picture of past credit performance and outcomes.
- Individual Bureau Enquiry
Provides past credit history - public record data, default data, past enquiries, directorship data - giving you the information you need to make an informed credit decision.
- Individual Bureau Application Score Enquiry
provides an automated credit recommendation in response to applicant and bureau data.

Impacts of Engaging to Debt or Credit

1. Pay back the debt on time
2. Pay interest on loans. Increases debt servicing burden.
3. Holds or restricts future savings.
4. Indulges consumers in impulsive buying.
5. Tightens other family commitments.
6. Increases risk of bad and doubtful debts.
7. Loss of reputation in society if debt is not cleared on time and facing the brunt of law.
8. Loss of self-esteem leading to depression and suicide.

Activity 2.1.9

1. Use the cartoon below and your own knowledge to answer the questions below.



1. Interpret the cartoon above in relation to engaging in bad debts?
2. Why is it important for the consumer to **act immediately**?
3. Is it wise for the person to get a credit card? Explain.
4. What does the term **debt servicing** means?
5. How does debt servicing affect consumers' income?
6. What advice would you give consumers to avoid heavy debt commitments?

2. Use the article given below to answer the questions

Your Credit Report

How good you are at paying your debts will be reported on your credit report. There are some common features of a credit report but some features vary from country to country.

In general, a credit report is likely to contain information about the way you manage debt, your bill payment patterns, information about you and whether or not you have defaulted on a loan.

Personal data, such as your name and its variations, your current and past addresses and your place of employment are included. Variations on your name may appear because businesses may make enquiries about you without being certain about how to spell your name or be aware of your full name. An error in your name could be a sign of identity theft.

A credit report most often has detailed information about your credit cards and loans. There can be information on your credit card balance, your credit limit, account type, account status and payment history. Information on different sorts of loans including loan balances, the original loan amount, payment history and types of loan can be listed on your credit report.

A range of information about your debt management, your recent credit and loan applications are also likely to be recorded and stay on your credit report for about 24 months. A credit report also includes a list of businesses who have enquired about your credit record. If an unpaid debt has been sent to a collection agency, that will also appear on the credit report. Any debt collection proceedings that have gone through the legal system, such as a mortgagee sale, repossession or a bankruptcy, may appear on your credit report for several years.

It is a good idea to see your credit report. You are entitled to ask credit reporting agencies for a copy of the information they hold about you. Access to your credit report is not available for just anyone. Those who access your credit information will usually be credit providers e.g. providers of hire purchase or credit card who are considering your credit application. Fortunately, providers can only access your credit report with your consent. In addition, if you believe that you have been the victim of fraud, including identity fraud, you can ask a credit report agency to not allow your credit report information to be available for a couple of weeks. If you ask for your credit report information, the agency should provide the information to you without too much delay. If you think that the information is incorrect, you can dispute inaccurate information with the credit reporting agency.

A credit report can be a lengthy document and knowing what is likely to appear on it makes it easier to understand.

Questions

- A) Explain the meaning of the following terms – credit report, debt, bill payment patterns, defaulted, identity theft, payment history, credit record, debt collection proceedings, repossession, victim of fraud, access.
- B) Explain the purpose of a credit report.
- C) Why would it be important to establish a good credit history?
- D) Identify ways that a negative credit report can affect a consumer's financial future.
- E) What is a borrowers' credit report right?
- F) Describe ways to avoid or correct credit problems.
- G) Identify any credit advice agency that operates in Fiji. If you are not aware of any, research on available credit advice agencies in other countries.

Activity 2.1.10

Case Study 1

Ateca and Rupeni wish to purchase a new lounge suite. They have had the current one ever since they were married and think they deserve a new one. They have priced several lounge suites and have found one that suits them. It cost \$3 200.

The furniture store selling the suite has offered them two deals

Deal One : Pay a 5% deposit and pay the rest over an 18 months period. The monthly repayment would be \$188.95 with a normal interest rate of 14.5% per annum and the total interest on this option is \$360.80

Deal Two : A discount of \$300 on cash buying.

They do not have sufficient money available to buy the suite for cash but Rupeni has sufficient credit on his credit card to buy the suite. The furniture store will accept payment by credit card for the balance. Currently the interest rate on his card is 19.2% per annum.

The credit card option would allow him to spread the payments equally over the twelve months and make each payment on the last day of each month. The interest is calculated at the end of each month. Using this method, the repayments on their credit card would be \$267.60 a month. They wish to take the option that incurs the least amount of total interest.

	Borrowed (\$)	Interest at 1.6% per month (\$)	Total Amount owing (\$)	Paid (\$)	Total Amount owing at the end of the month (\$)
1	2 900.00	46.40	2 946.40	276.60	2 678.80
2	2 678.80				
3					
4					
5					
6					
7					
8					
9					
10					
11					
12					
Total					

c) Calculate the total amount of interest if they pay \$300 and put the rest on credit card.

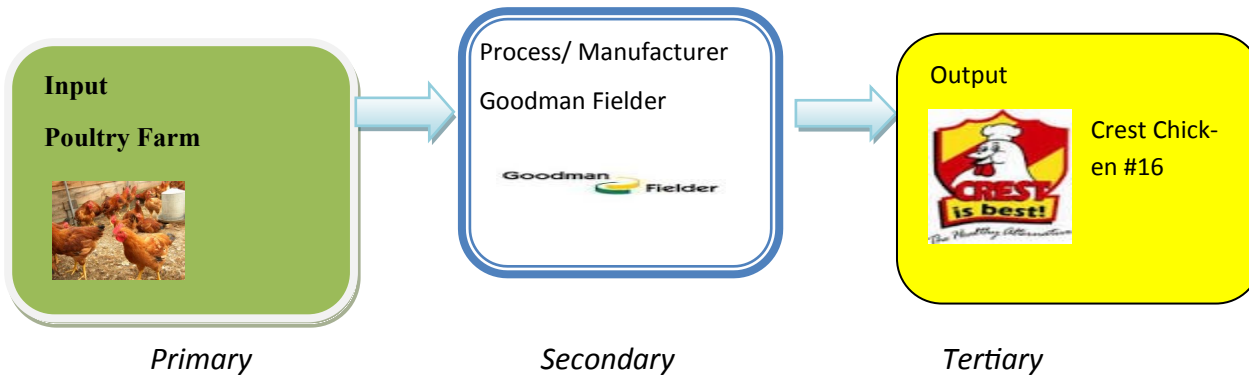
d) What are the advantages and of Deal One and Deal Two?

LESSON 2.2 : PRODUCTION AND PRODUCER

Production is an act or process of producing or manufacturing goods and services from raw materials. It refers to the creation of utilities or something good.

Producer is the business firm involved in producing goods and services to satisfy the needs and wants of consumers.

Production process is a process whereby factors of production are combined together and transformed into goods and services.



STAGES OF PRODUCTION

Primary stage is the acquiring or extracting stage of raw material for further processing. e.g. extraction/mining, quarrying and farming.

Secondary stage is the processing or converting of raw materials into intermediate [semi-finished] or finished goods. e.g. manufacturing furniture, process foods.

Tertiary stage deals with the provision and distribution of goods and services.

Example: transportation, banking, insurance, retailing, etc.

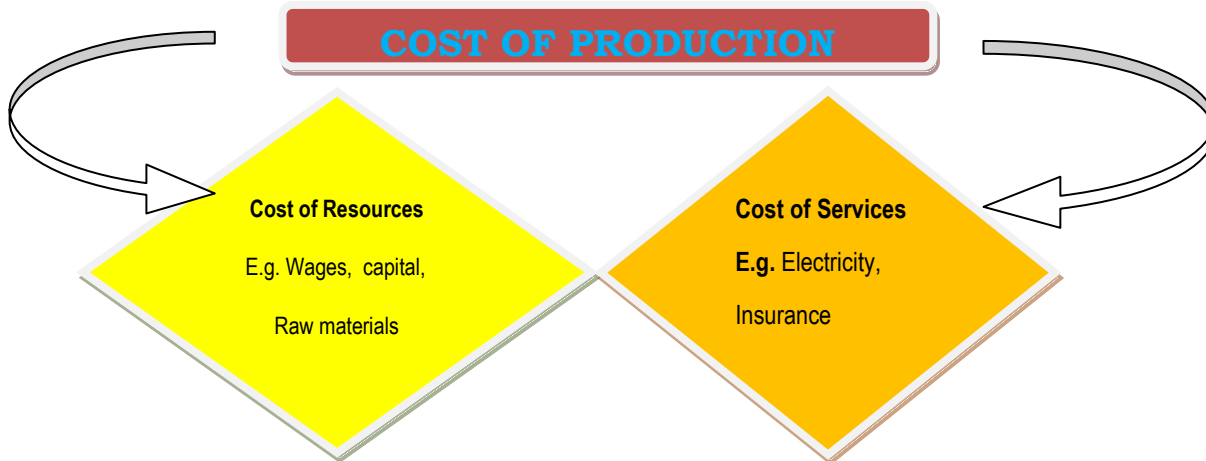
PRODUCTIVITY

- It is a measure of how efficiently resources or inputs are used.
- Resource or input can be anything used in making goods and services e.g. number of workers, bags of fertilisers etc.
- It is the output per unit of input e.g if total production is 100 TV sets and number of workers involved to produce 100 TV sets is 5 then:

$$\begin{aligned}
 \text{Productivity} &= \frac{\text{Total Production}}{\text{No. of units of input}} \\
 &= \frac{100}{5} \\
 &= \underline{20 \text{ TV sets per worker}}
 \end{aligned}$$

Activity 2.2.1

- Differentiate between the following pairs of terms:
 - producer and production
 - primary production and secondary production
 - productivity and production process
- Use the sugar industry to explain the different stages of production.



Economists and Accountants have different views when it comes to measuring the costs and profits of a firm (Geoff Evans 1997).

- Accounting cost [Explicit Cost]** is the actual dollar of monetary values of all of the inputs or resources that go into producing goods and services. These are expenses of the business and are paid to others outside the business. Example: rent, wages, electricity etc. (Geoff Evans 1997).
- Implicit cost** is the opportunity cost which includes any income foregone when a producer owns and uses resources for the purpose of his/her own business.

Example: A firm occupies the building it owns and does not rent it out. Therefore the rental income that could have been earned is the implicit cost.

- Economic Cost** is the total cost incurred to produce goods and services.

$$\text{Economic Cost} = \text{Implicit Cost} + \text{Explicit Cost}$$

- Accounting Profit**

$$\text{Accounting Profit} = \text{Total Revenue} - \text{Accounting/Explicit Cost}$$

5. Economic Profit

$$\text{Economic Profit} = \text{Accounting Profit} - \text{Implicit/Opportunity Cost}$$

Profit is the return for risk taking in the business.

Example 1:

Peter inherited \$100 000 and decided to buy and run a small restaurant. By the end of first year, Peter had received income from sales \$125 000 and paid at \$7 500 in expenses.

Solution

a. Calculate the Accounting profit.

$$\begin{aligned} \text{Accounting Profit} &= \text{TR} - \text{Explicit cost} \\ &= 125\,000 - 7\,500 \end{aligned}$$

b. Calculate Peters economic profit assuming Peter could earn \$25 000 as a sales representative and the inherited money could have earned 15% interest per amount in fixed term deposit.

$$\text{Economic Profit} = \text{TR} - (\text{Implicit Cost} + \text{Explicit Cost})$$

$$= 125\,000 - \left(\overset{\text{Implicit cost}}{40\,000 + 7\,500} \right) \quad 25\,000 + 15\% \text{ of } 100\,000$$

Example 2:

Wilma has been in business for a year selling a new product called Jet Set Juice. Her total revenue for the year is \$400 000 and business expenses total is \$28 500. Wilma could be earning \$45 000 if she worked for another firm as a sales manager. Also Wilma invested \$20 000 of her own money to start her business. The \$20 000 could be currently earning 14% per annum in fixed term deposit account.

Calculate:

- **Accounting profit**
- **Economic profit**

Solution

$$\begin{aligned} \text{Accounting profit} &= \text{TR} - \text{TE} \\ &= 400\,000 - 28\,500 \\ &= \underline{\$371\,500} \end{aligned}$$

$$\begin{aligned} \text{ii) Economic profit} &= \text{Total Revenue} - \text{Economic Costs} \\ &= 400\,000 - (28\,500 + 47\,800^*) \\ &= 400\,000 - 76\,300 \\ &= \underline{\$323\,700} \\ [\text{Implicit} &= (45\,000 + 14/100 \times 20\,000) = * \underline{\$47\,800}] \end{aligned}$$

Activity 2.2.2

Roma has been in business for a year selling a new product 'Uro choc'. Her total revenue for the year is \$500 500 and business expenses total \$295 000. Roma could be earning \$55 000 as an actress. Also Roma's investment of \$250 000 could be earning 15½% per annum in a fixed term deposit account.

Calculate:

- | | | |
|------------------|-----------------------|--------------------|
| Accounting Cost | iii. Economic cost | |
| Opportunity cost | iv. Accounting profit | v. Economic profit |

Activity 2.2.3

Use the Case Study given below and answer the questions that follow.

Simon left his job as a tax accountant at a big firm KPMG last year to run his own business. His accounting job was well paid, with a salary of \$90 000 p.a. He needed to contribute \$450 000 of his personal savings to start the business. Previously this money had been placed in the bank earning 6% interest p.a. His new business is based in an office building he owns. The building was leased for \$10 000 per month.

Simon thought that the first year of the new business was successful as sales were good. In the first half of the year he sold 10 000 units at a price of \$50 and things were even better in the second half of the year when he sold 15 000 units at a higher price of \$75. He tried to keep his business cost down so he could make as much profit as possible. His expenses came to \$1 400 000 over the year.

Calculate:

- i. Total revenue
- ii. Accounting profit
- iii. Opportunity cost
- iv. Economic cost
- V. Economic profit

Activity 2.2.4

Define the following terms :

- Accounting Profit
- Economic Profit
- Implicit Cost

Differentiate between the following pairs of terms:

1. Explicit cost and implicit cost
2. Accounting cost and economic cost
3. Accounting profit and economic profit

LESSON 2.3 : PRODUCTION COSTS**TOTAL COST**

- a. **Fixed cost (FC)** is cost that remains the same regardless of the level of output. If output is zero $TC=FC$

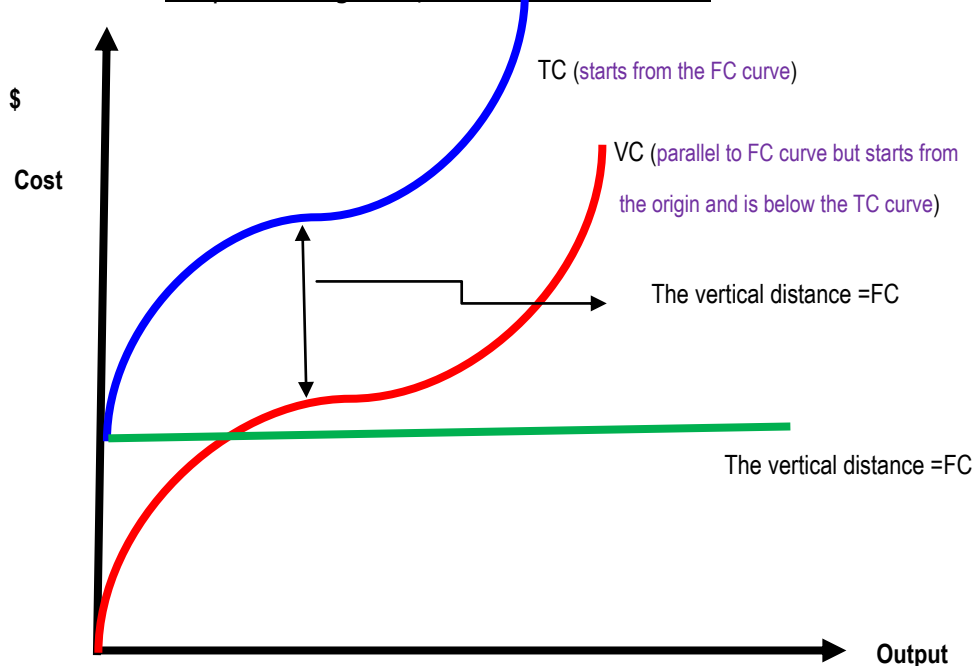
Example: Rent and Insurance. If output is zero, $TC=FC$

- b. **Variable cost (prime or direct cost)** are cost which vary with the level of output e.g. wages and salaries, the cost of raw materials. $VC = 0$ when output $=0$

- c. **Total Cost [TC]:** is the sum of fixed cost and variable cost

$$TC = TFC + TVC$$

Graph Showing Total, Variable and Fixed Cost



- D. **Average Cost [AC or ATC]** is the per unit cost. Average cost is 'U' shape and is also known as Average Total Cost.

It is calculated as follows:

- e. **Average Variable Cost [AVC]** is calculated as $TVC/output$.

Average variable cost is 'U' shape. Optimum plant size or output is at minimum AC.

$$\begin{array}{lcl} 1. & ATC / AC & = \quad TC / Output \\ 2. & ATC / AC & = \quad AFC + AVC \end{array}$$

- f. **Average Fixed Cost (AFC)**- total fixed cost are independent of output, whereas AFC falls from maximum.

AFC

decreases as output increases because

$$\begin{array}{lcl} 1. & AFC & = \quad TFC/OUTPUT \\ 2. & AFC & = \quad ATC - AVC \end{array}$$

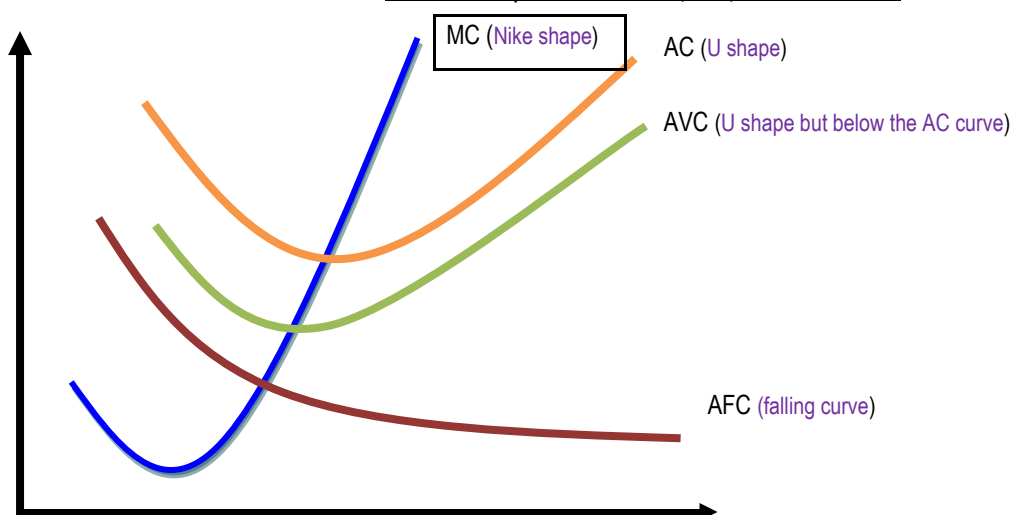
- g. **Marginal Cost (MC)**

Marginal means extra or additional. Marginal cost is additions to total cost.

$$\begin{array}{lcl} MC & = & TC2 - TC1 \\ & \text{OR} & \\ MC & = & \frac{TC2 - TC1}{Q2 - Q1} \end{array}$$

The Shape of the MC Curve graphically, is that the MC is 'J' shaped or $\sqrt{\quad}$ shape reflecting the theory Law of Diminishing Returns. MC initially slopes down as a result of increasing returns. However the MC eventually starts to increase in the short run as a result of Law of Diminishing Returns.

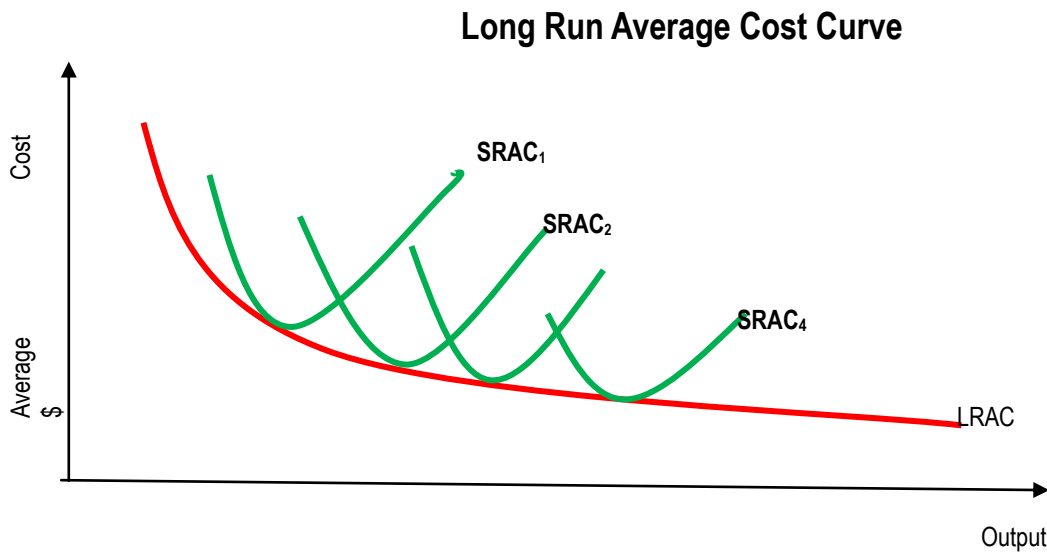
Relationship between MC, AC, AFC and AVC



- MC cuts both AVC and AC at their minimum points.
- When AC is falling MC is below AC.
- When AC is rising, MC is above AC.

The Long Run Average Cost Curve (LRAC Curve)

The LRAC curve envelops a number of short run average cost curves (SRAC curves) therefore it is also called the Envelope Curve.



Activity 2.3.1

Production Costs

Units of Output	Fixed Costs	Variable Cost	Total cost	AFC	AVC	AFC	MC
1	100	30	130				
2	100	48	148				
3	100	64	164				
4	100	86	186				
5	100	110	210				
6	100	136	236				
7	100	164	264				
8	100	210	310				
9	100	280	380				
10	100	410	510				

Complete the table below to the nearest dollar.

Construct fixed cost, variable cost, total cost, average fixed cost, average variable cost and marginal cost curves.

Activity 2.3.2

Below is the Cost Schedule of Prabhleen's Firm operating in the short run.

Output	FC	VC	TC
0			
2		50	
4			210
6		130	
8	100		390
10		250	

Calculate the following:

- Total Cost at zero output
- Average cost of output 2
- Average Variable cost at output 4
- Marginal cost at output 4 – 6

Activity 2.3.3

1. The table given below shows the average cost and the marginal cost schedules for bricklayers.

Bricklayers	Average Cost (\$)	Marginal Cost (\$)	Total Cost (\$)
1	6	-	6
2	4	2	(i)
3	3	(ii)	9
4	2.67	1.68	10.68
5	2.72	(iii)	(iv)
6	3	4.4	18

- Calculate the Marginal Cost (MC) and Total Cost (TC) for bricklayers represented by (i) – (iv).
- Draw the MC and AC curves on a pair of axes.

2. Distinguish between the following pairs of terms:

- Fixed Cost and Variable Cost.
- Total Cost and Marginal Cost.

LESSON 2.4: AGRICULTURE

Agricultural sector in Fiji includes sugarcane, copra, cash crop farming, fisheries, forestry, dairy and live-stock farming.

A large number of people rely on agriculture for their livelihood.

Nature of Production in the Agricultural Sector

- Agriculture is a primary industry that deals with extraction of raw materials from the land or the sea. It is the first stage of production.
- It is mostly labour intensive industry.
- It is mostly export oriented industry.
- Agricultural sector operates at subsistence, semi subsistence and commercial level.

Contributions of Agricultural Sector to Fiji's Economy

- It provides employment to skilled and unskilled workers.
- Agriculture brings in foreign exchange earnings.
- It contributes significantly towards GDP.
- Agriculture also contributes towards economic development that is development of other sectors such as commercial industries and service industries.
- Contributes to infrastructural development.
- It provides major source of income to a significant number of people in the economy.

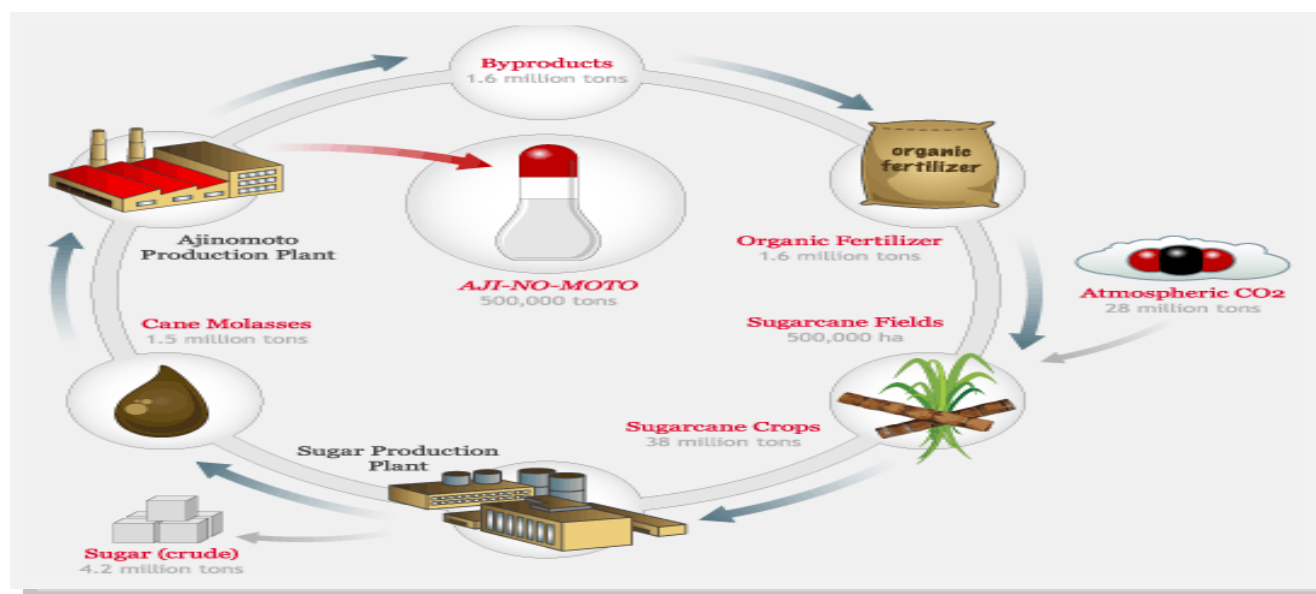
Problems Faced By the Agricultural Sector

1. Natural disasters.
2. Pests and diseases.
3. Climatic and geographical condition.
4. Expiry of land leases.
5. Fluctuations in world market prices.
6. Expiry of trade agreements e.g. LOME Convention and EEU agreement shall expire in 2015.
7. Political instability.
8. Lack of skilled labour and technology.
9. Cost of raw materials and transportation.

Government Actions to Curb the Agricultural Problems in the Economy

1. Provide subsidy to encourage production in agricultural sector through micro finance scheme and National Centre for Small and Medium Enterprise Development [NCSMED].
2. Renewal of land leases to increase agricultural output.
3. Undertake new trade agreements e.g. Pacific Agreement for Closer Economic Relations [PACER] and Melanesian Spearhead Group Trade Agreement [MSGTA] and securing new foreign markets e.g. China, Malaysia, Sri Lanka.
4. Encouraging youths to engage in agricultural sector by giving scholarships in agricultural studies.
5. Workshops held by Ministry to create awareness among farmers e.g. Agriculture Show.
6. Controlling pest and disease through biosecurity.
7. Encouraging diversification in the agricultural sector to boost income, output and exports. eg. Pacific Green, piggyery, sugar, cash crop farming.
8. Introduction of land banks by the government i.e. land is available at the Land Bank for any form of farming.

LESSON 2.4.1: SUGAR INDUSTRY



Nature of Sugar Industry

Sugar industry involves all three stages of production:

- ***Primary- farming and harvesting.***
- ***Secondary –processing sugarcane into sugar.***
- ***Tertiary -distribution and sale of sugar.***
- It is both labour and capital intensive.
- Sugar production is mostly export oriented.

Contributions of Sugar Industry to the Fiji Economy

- Foreign exchange earner for the country.
- Provide direct and indirect employment for the mill workers and the sugarcane farmers and drivers.
- It has led to the development of towns (Labasa, Ba, Rakiraki and Seaqaqa) and a city (Lautoka).
- It has led to infrastructure development of railways, roads, bridges, wharves, etc.
- Developed other industries for e.g. SPD and other businesses have developed because of the industry.
- Contributes significantly towards GDP.
- It provides major source of income for people in the economy.

Problems faced by the Sugar Industry

- Expiry of land leases – non renewal of land leases will affect cane production. Sugar production will decline, loss of revenue for Fiji and employment in the industry will be affected.
- Loss of preferential price agreements – these are agreements between Fiji's government and others where Fiji is able to sell its sugar at prices above the world market price.
- Agriculture prices tend to fluctuate (unstable) on the world market. As a result farmers' incomes vary from year to year.
- Natural disasters affect sugar production.
- Since farm products are bulky, transportation and storage costs are high.
- Many farmers may not be efficient producers because of the lack of resources and technical knowledge.
- Unfavorable or diverse weather conditions e.g. drought, hurricane and floods.
- Stagnant or low sugar cane prices, there is no incentive for farmers to continue with cane production.
- Unharvest cane – canes which have not been accepted by the mills because the crushing season has ended. This is a disincentive for farmers to continue production.
- Mill breakdowns- stoppage in the production of sugar due to problems in the capital equipment affects sugar production.
- Competition from other sugar producing countries. These countries are efficient and highly productive in producing sugar. They remain profitable at lower prices.
- Industrial disputes e.g. strikes affect sugar production.

Diversification

- Process whereby a firm expands by supplying a range of different products and as a result operates in a number of markets.
- Farmers produce other cash apart from sugarcane.

Government policies for the Sugar industry

- To restructure the industry into a commercially viable efficient and sustainable industry.
- To ensure land access and availability for the industry.
- To improve milling efficiency and linkage of the payment system to the quality of sugar in the cane.
- To increase the efficiency, productivity and quality of sugarcane production in farms through research and development.
- To diversify the range and production of sugar by-products.
- Introduction of NALTA [Native Agricultural Land Tenant Act]
- Undertake new trade agreements e.g. Pacific Agreement for Closer Economic Relations [PACER] and Melanesian Spearhead Group Trade Agreement [MSGTA] and securing new foreign markets e.g. China, Malaysia, Sri Lanka.

Activity 2.4.1.1

1. Define diversification and give an example of this in the sugar industry.
2. State some of the challenges faced by the sugar industry.

Activity 2.4.1.2**Essay Writing**

Write an essay of approximately 200-250 words on the following questions.

1. **‘Fiji’s agricultural sector has contributed significantly to its Gross Domestic Product’.**

Discuss the above statement with reference to:

- i) three natures of the agricultural sector; (3m)
- ii) three contributions made by the agricultural sector to Fiji’s economy; (3m)
- iii) three extent of government involvement in the agricultural sector. (3m)

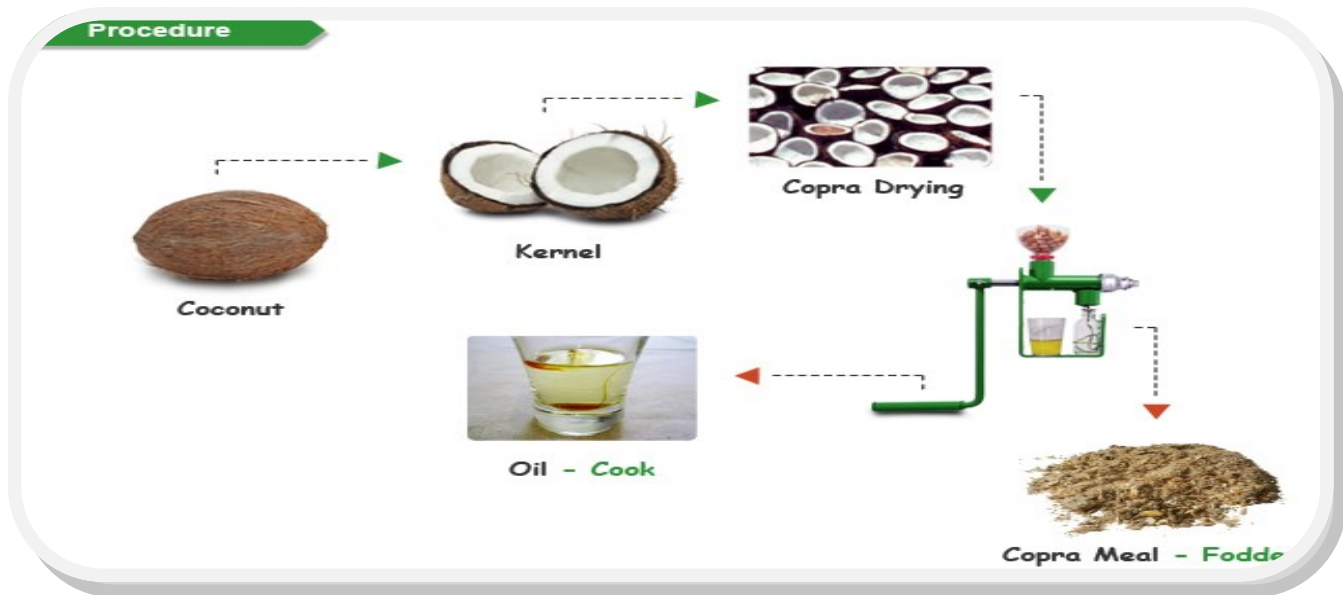
2. **‘Sugar industry is still believed to be the backbone of Fiji’s economy’.**

Discuss the above statement with reference to:

- i) three natures of the sugar industry; (3m)
- ii) three reasons why diversification helps in boosting production in the sugar industry; (3m)
- iii) three major problems faced by the sugar industry. (3m)

LESSON 2.4.2 :

COPRA INDUSTRY



Nature of the Industry

- It involves primary and secondary industry.
- It is both labour and capital intensive.
- It is more export-oriented.

Export market of Copra and Coconut Oil

- The main buyers are Australia, USA, UK, New Zealand and Canada.



Diversifi- cation within the Coconut Industry

- Due to low prices and costly ventures, farmers prefer to sell husked coconuts at high domestic prices.
- An increasing number of villages are selling drinking coconuts because they earn more than copra. It also requires less labour and capital.
- Due to the introduction of a new technique of producing coconut oil small holders of cooperatives prefer to produce oil at source and sell it rather than producing copra. Eg VICO: Virgin Coconut Oil.
- The Pacific Green Company produces and markets high – valued products made from coconut wood.

Importance of the Coconut Industry

- Important source of income for the rural areas in Fiji.
- Helps earn foreign exchange for the country.
- Creates employment opportunities for the people through diversification.
- Contributes to the GDP (Gross Domestic Product) of the economy.

Problems Faced by the Industry

- Lack of supply of copra – this is because there is no incentive for producing and few people want to work on plantations.
- Unstable prices on world market. The government price support scheme is not sufficient to support growers.
- Competition from Tonga and Western Samoa.
- Natural Disasters
- Rhinoceros beetles and other diseases.
- A number of farmers are hesitant to replace coconut trees as they have to wait for a long time before the trees bear fruit. As a result, they diversify into other activities.

Government Policies for the Copra Industry #

The following are government actions used to curb the problems faced by the industry.

1. Government granting subsidies to farmers such as providing free seedlings
2. Introducing new technology such as plant/machinery for copra milling

Activity 2.4.2.1

Read the article below and answer the questions which follow.

The exploitation of primary resources is crucial to the development of many developing countries. This research explores the production and future prospects of the copra industry in Fiji. Using observations, interviews and agricultural census information, the present study shows that the decline in production has been partly due to the relatively low world price (in the long term) of copra and partly due to the increasing cultivation of substitute crops which are found to be relatively more lucrative.

Copra production is an important farming system in Fiji and also an important diet of many Pacific Islanders including Fijians. Coconuts are in a way ubiquitous on the Pacific; it would be almost difficult to find any tropical island bereft of coconut trees.

The Fiji copra industry is centred around Savusavu (Cakaudrove) in Vanua Levu and its origins can be traced to the activities of early European settlers in the 1870s. Today, about 20 per cent of all the copra produced comes from the large plantation estates owned by their descendent while the remaining 80 per cent is produced by small indigenous farmers.

1. Describe the nature of the copra industry.
2. Why is copra industry important to Fiji's economy?
3. State two reasons as to why the government encourages diversification in copra industry.
4. Give two challenges that are faced by the copra industry.
5. State one recent trade agreement that would encourage copra production in Fiji.

Activity 2.4.2.2

Essay

'Copra industry is fighting all obstacles to continuous its progress'.

Discuss the above statement with reference to:

- three nature of the copra industry;

(3m)

LESSON 2.4.3 : FORESTRY



Nature of the Industry

- It involves primary and secondary industry.
- It is both labour and capital intensive.
- It is more export-oriented.

The Pine Industry

- This scheme was initiated in 1972 with financial and technical assistance received from the New Zealand Aid Programme.
- The industry is particularly important in bringing income to rural areas and it involves Fijians in the industry through plantation ownership and timber processing.
- The land owners also earn royalties, or rents from logging leases.

Fiji Pine Limited

- Established in 1991.
- It took over the assets, liabilities and obligations of the Fiji Pine Commission as a result of corporatization.
- Government is the major shareholder in this company – 99.8% of shares. The remaining 0.2% is held by the Fiji Pine Trust on behalf of the land owners.
- The primary objective is to manage the Pine plantations and supply logs to Tropik Woods Industries.

Contributions

- It provides employment to people.
- It earns foreign exchange for the country.
- It contributes to GDP.
- Source of income.

Problems

- Natural disasters.
- Forest fires.
- Poor quality of timber therefore low export revenue.
- Landowners are not getting an adequate return from Fiji Pine Ltd.
- Competition from competitors who sell low quality timber products at a cheaper price.
- Industrial disputes.

Tropik Woods Ltd.

- This is a government owned corporate body and a subsidiary of Fiji Pine Ltd.
- The company's main export is pine wood chips to Japan.
- The company's also exports framing timber, decking and posts to Australia and structural timber mainly to New Caledonia and Tonga.
- It also sells pine locally.

Joint Venture

- Fiji Pine Commission formed a joint venture with foreign investors

Advantages of the Joint Venture

- More capital and expertise to expand the industry
- Responsible for processing and marketing wood.
- Provide employment
- Use of land generates more income for land owners
- Increase sale of timber in the local market.

Timber for Export

Major buyers of timbers are NZ, Australia, UK, USA, and Japan.

Timber for Local Market

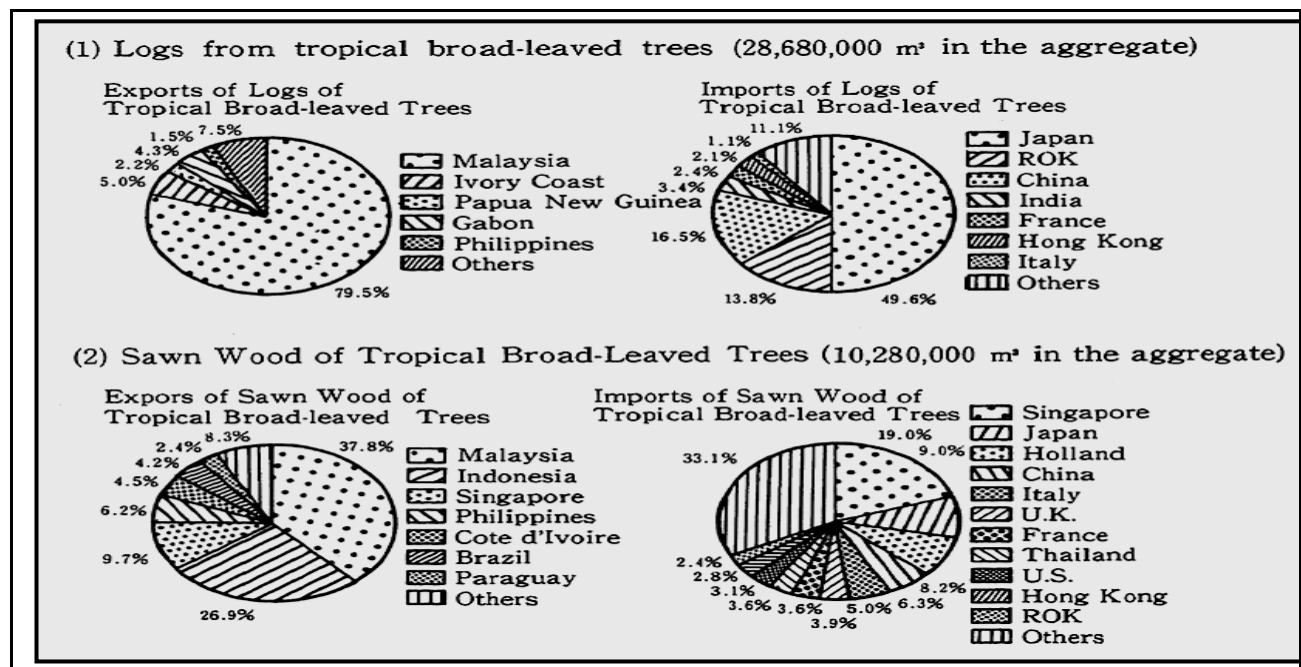
- ♦ Demand for local timber depends on the building of new houses, repairing of existing houses and buying of new furniture which is made from wood.
- ♦ It is also used for boat building, art and craft and as poles, posts and firewood.

Government Actions to Curb Problems

The Forestry Department policies and strategies are driven towards the sustainable management of hardwood plantation indigenous logging industry and also to foster the development of the use of the wood by products.

Activity 2.4.3.1

Study the two pie charts given below and answer the following questions.



- What do the graphs given above show?
- How does export of timber benefits Fiji's economy?
- Which country is the highest buyer of Sawn Wood?
- Why does Fiji have to import tropical broad leaves trees?
- What are some of the problems faced by the forestry sector
- Explain the difference between **afforestation** and **deforestation**.

LESSON 2.4.4 : FISHERIES



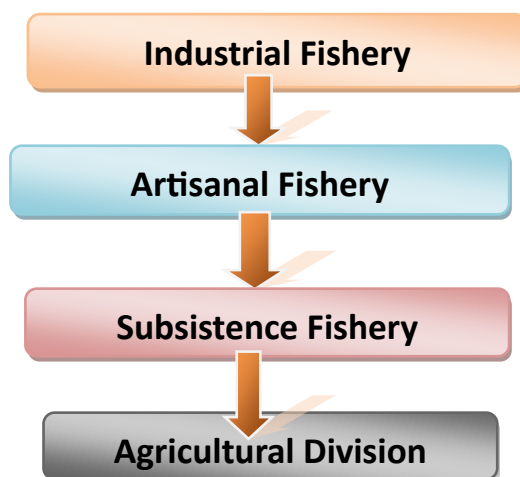
Nature of the Industry

Fisheries in economics refer to all types of marine resources.

This industry has existed since the pre-contact period.

Commercial exploitation of marine resources begun around 1822 with Beche-de-mer trade.

Structure of the Fishing Industry



- The **industrial fishery** – this operates on a large scale and is exported oriented.
- The **artisanal fishery** – this includes small scale commercial production for domestic scale.
- **Subsistence fishery** – involves catching for self-consumption with the occasional sale of surplus catch.
- **Agriculture division** – requires large investment in the fishing industry.
- The 5th division is fishing as a sporting activity. This attracts tourists as well as locals.
- The fisheries sector is currently the tenth largest export industry.
- Marine resource sector currently contributes significantly towards nations GDP.
- The sector boasts adverse range of resources from “finfish products” to prawn, seaweed, giant clam & Tilapia farming which are cultured of a semi-commercial and subsistence level.

Overseas Market

Exports mainly to Japan and the US West Coast.

Imports

It also imports fish to supply the domestic markets.eg Thailand and Chile.

The Pacific Fishing Company (PAFCO)

- The company was established in 1964 in Levuka for the freezing and export of tuna.
- In 1989, the company entered into a joint venture with investment from Thailand, Taiwan and Australia to form the Pacific Packaging.
- The canning operation of the factory provides employment to the people of Ovalau.

The Fiji Fish Company Ltd.

- Was established in 1988.
- In 1993 it won the FTIB export of the year award.
- The company exports fresh fish products on a large scale to Japan.
- Also supply to New Zealand, USA and Canada.

Aquaculture

- Is the farming of marine or aquatic organisms. e.g. prawn farming in Naitata Navua.

Contribution by the Industry

- Provides employment.
- Earns foreign exchange for the country.
- Sources of income.
- Satisfies domestic consumption.
- Contribution of Fiji's GDP.

Problems

- Supply is affected due to adverse weather condition
- Catching of under sized fish leading to depletion
- Drift net fishing – described as 'Wall of Death' because it catches whatever comes its way. It kills everything within its reach and people take what they want and throw the rest back into the sea. This causes rapid depletion of fish stock and at the same time accidentally catches marine organisms which are not required
- Illegal fishing
- Use of explosions which destroys marine life
- Strike action by workers.

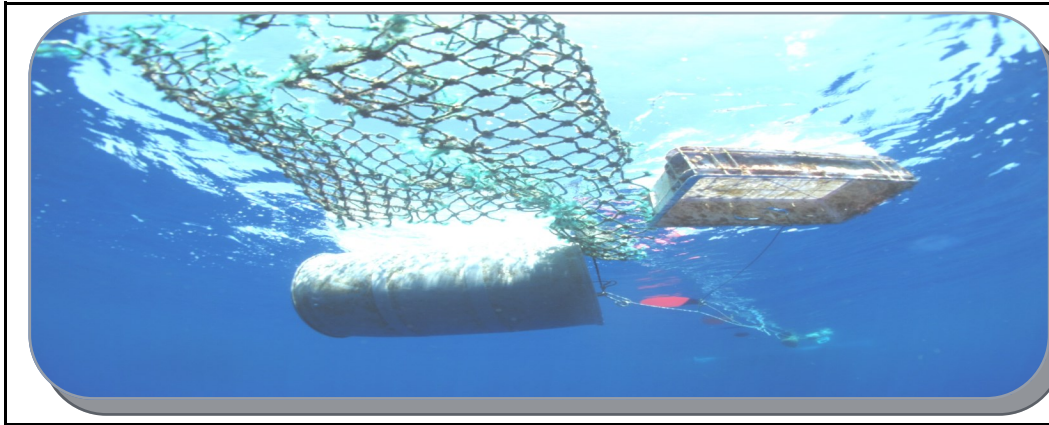
Government Policies for the Industry

The government action to curb problems faced by the industry

- i. License given to fishermen to fish.
- ii. Introduction of EEZ – avoid foreigners to fish.
- iii. Discipline illegal fishing.

Activity 2.4.4.1

Study the picture given below and answer the questions that follow.



Identify the type of fishing shown in the picture.

State at least two effects of this type of fishing

3. How does this form of fishing contribute to depletion of resources in future?
4. State some of the challenges faced by the fishing industry.
5. What actions are taken by the government to solve the problems identified in (3) above?
6. How does the fishing industry contribute to Fiji's economy?



Cash crops are those crops that sell easily in the domestic market.

They are also grown at subsistence and semi-subsistence level eg. Rice, root crops, fruits, vegetables and maize.

Ginger

- The ginger council was established in 1986 to promote the industry in Fiji and exports in the overseas markets.
- It is grown on gentle hill slopes with well-drained soil in central Waidina, Waibau, Lomaivuna, Vunidawa and Tailevu areas.
- It is exported to USA, Canada, UK, Australia, Germany, New Zealand, Japan and other Pacific Island countries.
- Fiji's main competitors are Hawaii and Brazil.

Other Cash Crops

1. Rice – grown in Northern and Western divisions.
2. Kava – This is exported to Germany, USA.
3. Taro – exported to NZ and the USA. Other value added products are taro chips/ flour, processed baby foods.
4. Vegetables – these are grown in the Sigatoka Valley and the Rewa basin
5. Fruits – such as pawpaw, bananas and mangoes have good export potential.
6. New Zealand buys egg plants, okra and chillies from USA. There are niche market for such products in Canada, USA and Japan.

Problems

- Unfavourable weather e.g. Drought and flooding.
- Pests and diseases e.g. fruit flies.
- Agricultural produce are subject to price fluctuations.
- The incomes of farmers are affected.
- Lack of skills, capital and technology to start-up the business.

Activity 2.4.5.1

Essay

Cash cropping is now silently dominating the agriculture sector as more people resort to it in the form of small scale enterprise.

With reference to the above statement:

- describe cash crops in Fiji with local examples and state two benefits from cash (3m)
- three problems faced by cash crop farmers; (3m)
- three extent of government involvement in the cash crop sector. (3m)

LESSON 2.4.6 : LIVESTOCK FARMING



Nature of the Industry

- It involves primary and secondary industry.
- It is both labour and capital intensive.
- It is more export-oriented.

Sources of Capital

- The Fiji Dairy Cooperative is a public limited company.
- Its capital comes from the shareholders who are mostly dairy farmers.

Importance

Livestock farming provides direct and indirect employment i.e. providing jobs to people in its factory and in the distribution of goods.

1. Livelihood to farmers, farm workers and their families.
2. Utilization of land.
3. Supporting industries such as beef production and tannery.
- 4.** Supplying fresh local dairy products at affordable prices.

Problems

- There are variations in the supply of raw materials due to adverse weather conditions. This affects production levels.
- Due to lack of technology, the quality is low.
- Lack of grazing land.

Government Assistance for the Industry

1. Government has provided the necessary infrastructure for raw materials and greater delivery to the factory.
2. Through its Agriculture department, government has been helping dairy farmers in animal husbandry and ways of improving production.
3. Introducing new technology and methods to improve product quality.

Activity 2.4.6.1

1. Differentiate between Export Orientation Programs and Import Substitution Program.

[It is mandatory for students to use 'where as'.]

2. Essay

Agricultural dependence can place a nation at the mercy of other countries.

With reference to Fiji's economy, discuss the above statement with regards to:

- I. three problems caused by relying on Agriculture for exports; (3m)
- I. three factors that have encouraged productivity in Agriculture; (3m)
- I. three strategies implemented by the state to reduce dependence. (3m)

LESSON 2.5 : MINING



Nature of the Industry

- The industry is based on the extraction of gold ore deposits which are non-renewable.
- The industry is very highly capital intensive.
- It is a risky industry because there is no guarantee that anything will be found.
- Foreign companies control the industry.

Contributions

- Creates employment. The jobs are created when workers are employed to satisfy the needs & wants of the mine and their families through the production of goods and services.
- Contributes to GDP.
- Earns foreign exchange.

Problems Faced by the Industry

- The price of gold in the international market has been fluctuating. This has affected production levels in the country.
- Industrial disputes – strikes affect production.
- Injury to workers.
- Natural disasters e.g. earthquakes.
- Poor working condition e.g. pay and work environment.
- High risk in terms of capital and human resource.

Future of the Mining Industry

The future relies on these major factors:

- discovery of more gold reserves
- increased expenditure on capital investments to increase returns & profit so that the industry remain internationally competitive.

Government Actions to Curb Problems of the Mining Industry

1. The introduction of national minimum wage rate as stipulated by the Employment Relations Promulgation 2007.
2. the introduction of land banks
3. OHS compliant mines

Activity 2.5.1

1. When did the mining industry in Fiji begin?
2. Describe 3 features of the mining industry.
3. Discuss 2 ways in which Fiji benefits from the mining industry.
4. Mining and Agricultural activities are classified as
 - A. secondary industry.
 - B. tertiary Industry.
 - C. primary industry.
 - D. manufacturing industry.
5. An example of Aquaculture would be
 - A. raising fresh water fish in Navuso.
 - B. marine prawn ponds in Navua.
 - C. catching fish for research.
 - D. shark feeding in Beqa.
6. The Fiji Sugar Marketing Co. Ltd
 - A. administers all production by the Sugar Industry
 - B. promote sales of sugar in the overseas market
 - C. conducts research and development for FSC
 - D. negotiates the price per ton to be paid to farmers
7. The fishing method termed as the wall of death refers to
 - A. driftnet fishing
 - B. long line fishing
 - C. Japanese harpoons
 - D. trawling
8. Nawailevu in the province of Bua in Vanualevu is the mining location of
 - A. gold
 - B. bauxite
 - C. silver
 - D. metal
9. Explain 3 problems faced by the mining industry.
10. Discuss two risks involved in the mining industry.
11. On a blank map of Fiji, locate the mines currently operating in Fiji and also name them.

Activity 2.5.2

Read the case study and answer the questions that follow.

Fijian Benefits from China Firm's Bauxite Mining

SUVA. The Nawailevu landowners of Bua in Fiji's northern island will receive over 600,000 Fiji dollars next year [2013] in relation to bauxite mining after receiving their first lump sum payment from a Chinese company earlier this year. The landowning unit will be getting their payment according to their agreement with the Aurum Explorations of China.

The export of bauxite to China is expected to make Fiji at least \$22 million a year and other countries are showing interest in importing the mineral. The first shipment was being loaded and would carry about 60,000 tons of bauxite to China. The contract with the Chinese company was for one million tons to be exported over the next two years, while other countries have made inquiries.

Bauxite is limited as far as serious exploration and mining is concerned to China but there are other interests being expressed by Russia, some European countries, and some other countries in Asia. The challenge is to ensure that any exploration and mining work is carried out in a sustainable way, and is mindful of the environmental and social implications.

Earlier this year, local newspaper The Fiji Times reported that two more districts in the province of Bua had been identified for bauxite mining. The districts of Nasarawaqa and Wainunu in the north have been marked for mining operations.

Nawailevu bauxite mining has a lease of 22 years with three years for mining activities and 17 years for rehabilitation work, and is also looking at Nasarawaqa and Wainunu districts for bauxite mining.

The mining companies bring in Chinese employees to work and the villagers will have the opportunity to sell root crops other food items, so this is one way for the villagers to earn money.

[Source: ChinaDaily.com.cn: 12/10/2012]

1. State the reason why Bauxite mining is classified as a Primary Industry.
2. Identify two benefits of bauxite mining to the Bua community.
3. Name one ancillary service sector that will benefit from Bauxite mining.
4. Assume that earnings from bauxite exports for 2014 are predicted to increase landowners earnings by 2.5% in relation to amount earned in 2013. Calculate the amount that will be earned by landowners' in 2014.
5. State two problems that will arise as a result of Bauxite mining

LESSON 2.6 : PRICE MECHANISM

Market is a situation where buyers and sellers interact to exchange goods and services for money.

Examples : Goods market, Factor market, Money market, Stock exchange market and Forex market.



Market as a place



Market as a situation

Price Mechanism

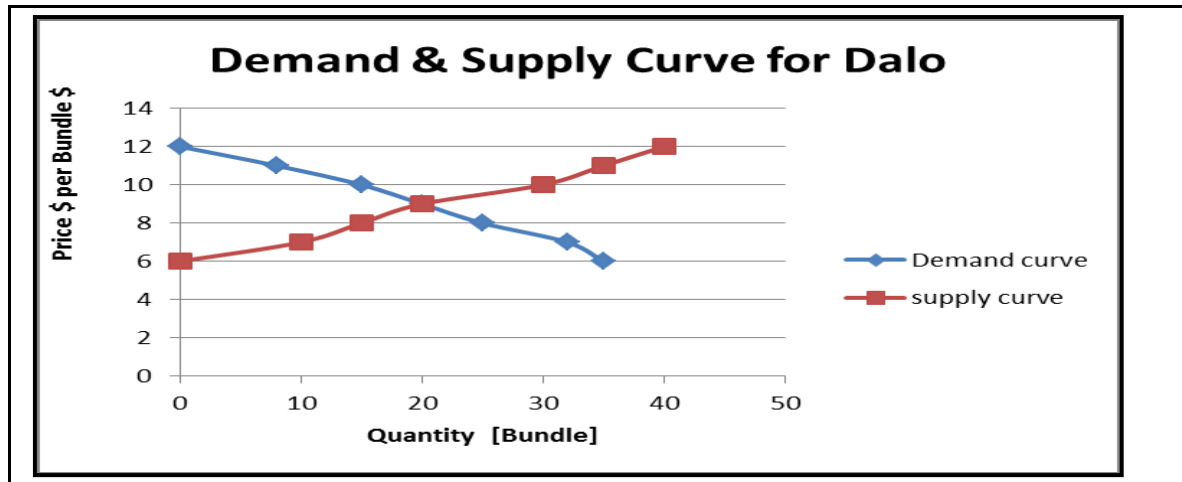
It is a price system that determines the price of goods and services through the interaction of supply and demand.

1. **Equilibrium** is a state of balance. It is a situation where $Q_S = Q_D$. Equilibrium is also known as '**status quo**' (Greek phrase).

2. **Supply and Demand Curve**

Price per bundle	Qty Demanded	Qty Supplied	Market Situations
12	0	40	40 surplus
11	8	35	27 surplus
10	15	30	15 surplus
9	20	20	0 equilibrium
8	25	15	10 shortage
7	32	10	22 shortage
6	35	0	35 shortage

Graphical Illustration



Shortage [Excess Demand] is situation where quantity demanded is greater than quantity supplied. Any price below the equilibrium will bring about a shortage in the market.

Surplus [Excess Supply] is a situation where quantity supplied is greater the quantity demanded. Any price above the equilibrium will bring about a surplus in the market.

Activity 2.6.1

a) Given below are the market demand and supply schedule for shirts.

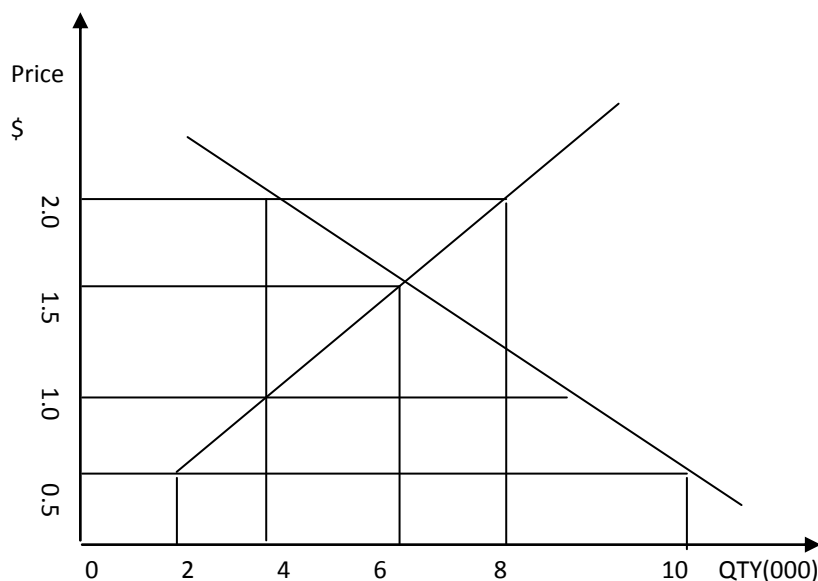
Price of Shirts \$	Quantity of Shirts Demanded per Week	Quantity of Shirts Supplied per Week
1	36	7
2	32	12
3	28	15
4	24	18
5	20	20
6	16	22
7	13	24
8	10	26

- (i) Construct the demand and supply curve for shirts.
- (ii) Explain why the economy would not experience a shortage of shirts at \$8
- (ii) What is the
 - a. equilibrium price
 - b. equilibrium quantity
- (iii) Should the government fix the price of shirts at \$6, what would happen to demand?
- (iv) Calculate the total sales and total expenditure at \$7.
- (v) Explain the law of demand and law of supply.
- (vi) Explain two determinants of supply and two determinants of demand.
- (vii) For each of the following cases, identify the effects on equilibrium price and equilibrium quantity:

- supply decreases / demand constant
- demand decreases / supply constant

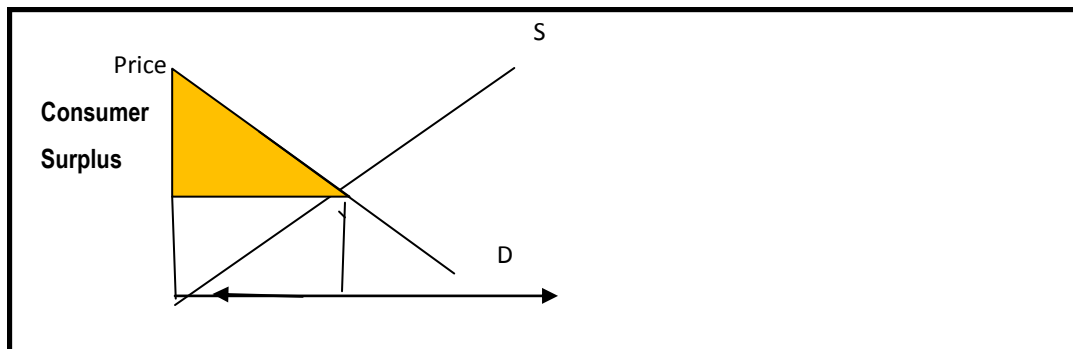
b) Demand and Supply Curve for Pens

Graph not drawn to scale

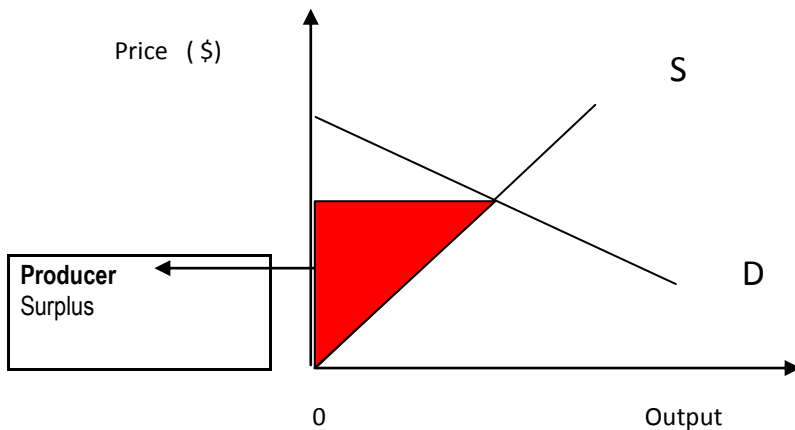


- Label the Demand and Supply curve.
- State the equilibrium price and quantity.
- Calculate the following:
 - Total Revenue at the equilibrium price
 - Market situation at the market price of \$2
 - Excess demand at the price of 50 cents.
- On the same pair of axis above, show the effects on quantity demanded and quantity supplied if price falls to \$1.00
- What is the market situation at \$2.00?
- Why will 50 cents not be the equilibrium price for blue pens?
- From the graph given above, derive the demand and supply schedules.
- On the same pair of axis above, show the effect of a decrease in the price of another brand of pen.

Consumer Surplus is the difference between the price consumers are willing and able to pay and what they actually must pay in order to obtain a commodity. It is the area below the demand curve and above



Producer Surplus is the difference between the price at which producers are willing and able to supply and what they actually receive for selling the commodity. It is the area above supply curve and below the price line.



PRICE CONTROL

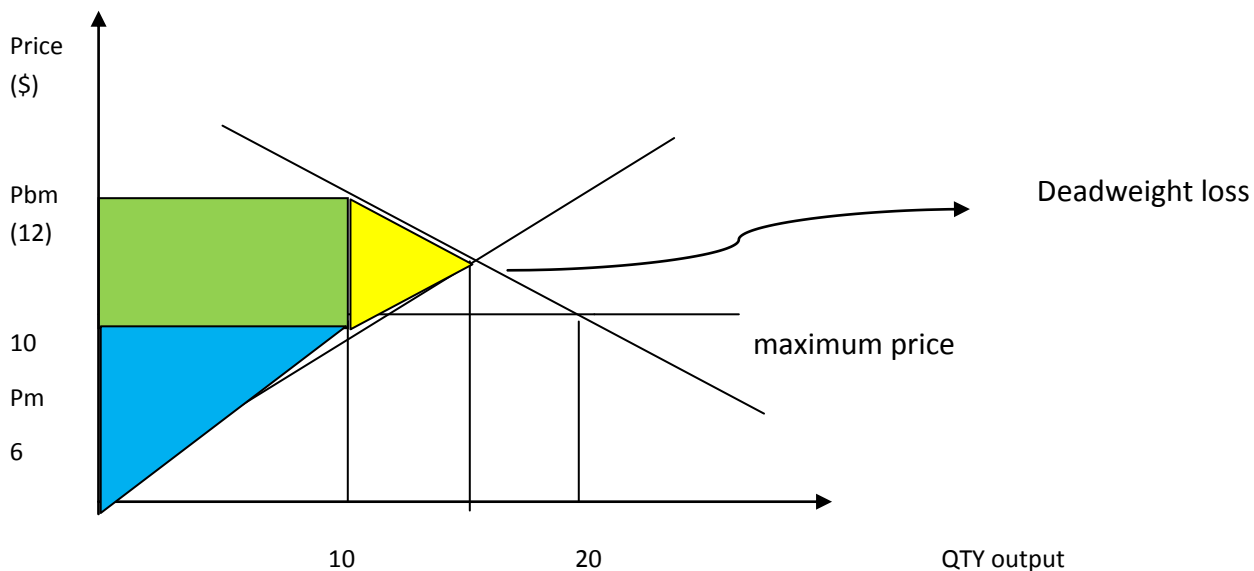
- It is the control of prices by government either at maximum or minimum level.
- These **legal** prices are either set above or below the equilibrium prices.

1. Price Ceiling: Maximum Price

- It is the maximum price set by government **below** equilibrium level to ensure certain essential goods and services are affordable. Price ceiling is set to protect the buyers or consumers. Example: rent ceiling, interest ceiling.

Graphically :

Effect of Price Ceiling



KEY:

	Increased consumer surplus after price ceiling.
	Reduced producer surplus after price ceiling.
	Deadweight loss – is sum of loss of consumer and producer surplus not transferred to any party.

Effects of Price Ceiling

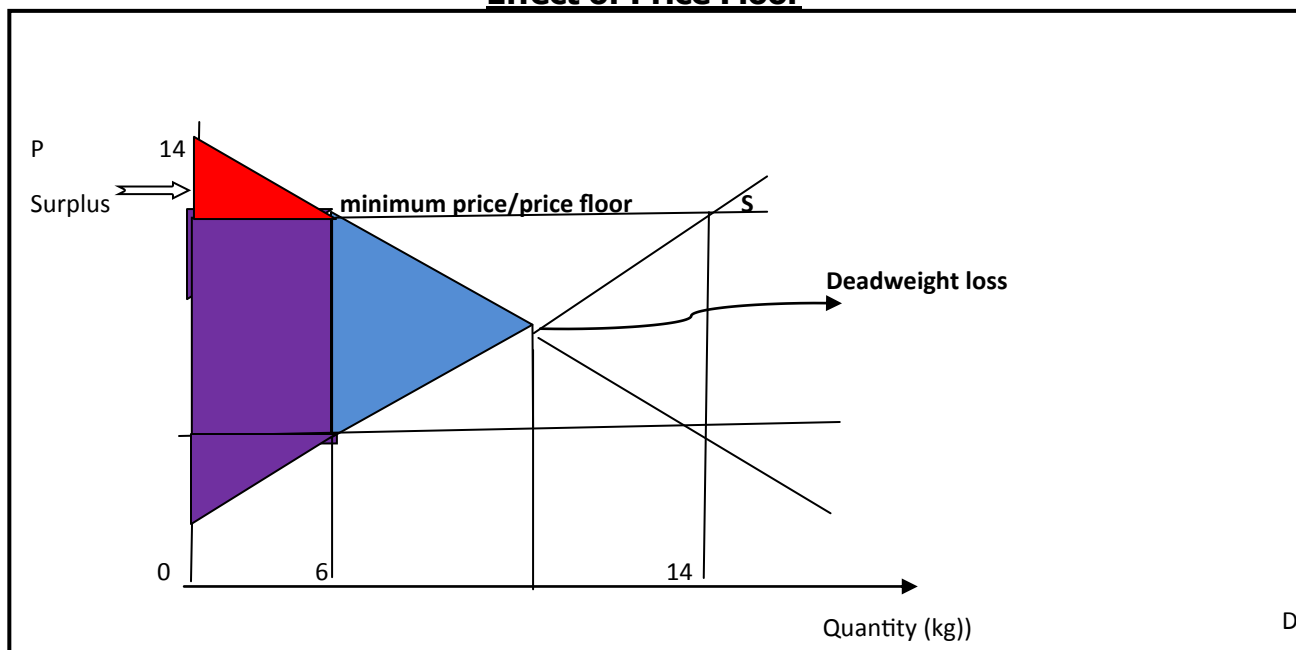
- 1) It creates a shortage of ($Q_d - Q_s$) i.e. $20 - 10 = 10$ units.
- 2) It results in black marketing and producers will charge higher price (P_{bm})
- 3) It leads to booking/rationing system, queuing or 'first come first serve basis'
- 4) Some customers may remain unsatisfied due to shortage
- 5) It reduces the value of producer surplus and increase the value of consumer surplus.

Activity 2.6.2

1. Define the term Price Ceiling.
2. Why do government fix price ceiling?
3. Give local examples of price ceiling.
4. Draw a graph to depict price ceiling.

2. Price Floor: Minimum Price

It is the minimum price set by government to protect producers e.g. agri-cultural price floor and minimum wage rate.

Graphically :**Effect of Price Floor**



Reduced consumer surplus after price ceiling

Increased producer surplus after price ceiling

Deadweight loss – is sum of loss of consumer and producer surplus not transferred to any party.

- i. It creates a surplus of $Q_s - Q_d$ i.e. $14\text{kg} - 6\text{kg} = 8\text{kg}$
- ii. It will result in the illegal lowering of prices in the market.
- iii. The surplus created will be wasted if government does not come in to buy up the surplus. To get rid of surplus, producers can also diversify. E.g., surplus milk can be used in producing ice-blocks, ghee, 'paneer' (cottage cheese), yogurt etc.

Activity 2.6.3

1. Why will drug companies produce more pharmaceuticals at higher prices?
2. Why will consumers buy more pharmaceuticals at lower prices?
3. What happens to the price if a price ceiling (maximum legal price) is imposed?
4. Does a price ceiling create a surplus or a shortage? Why?

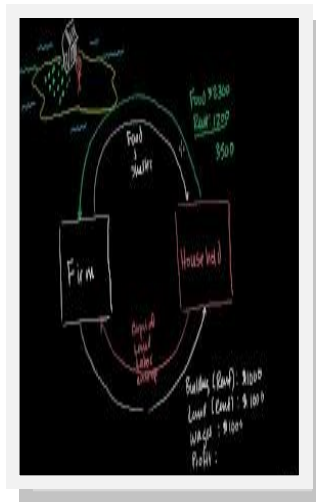
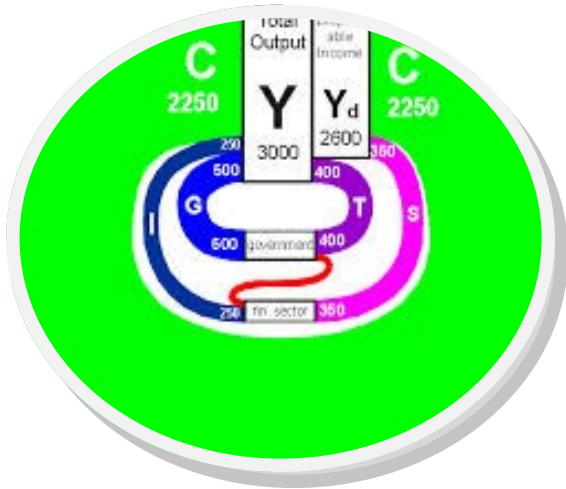
Activity 2.6.4

1. An effective price ceiling creates a _____ and an effective price floor creates a _____.
 A. surplus; shortage
 B. shortage; shortage
 C. surplus; surplus
 D. shortage; surplus
2. A price ceiling _____ lead to a black market and a price floor _____ lead to illegal trading.
 A. cannot; cannot
 B. can; can
 C. can; cannot
 D. cannot; can
3. A price ceiling _____ to increased search activity and a price floor _____ to increased search activity.
 A. leads; does not lead
 B. does not lead; leads
 C. leads; leads
 D. does not lead; does not lead
4. An effective price ceiling creates _____, an effective price floor creates _____, and an effective price support creates _____.
 A. inefficiency; inefficiency; efficiency
 B. efficiency; inefficiency; inefficiency
 C. inefficiency; inefficiency; inefficiency
 D. inefficiency; efficiency;

5. A price ceiling set _____ has no effect and a price support set _____ has no effect.
 A. below the equilibrium price; above the equilibrium price
 B. above the equilibrium price; below the equilibrium price
 C. below the equilibrium price; below the equilibrium price
 D. above the equilibrium price; above the equilibrium price
6. A minimum wage is an example of _____.
 A. neither a price ceiling nor a price floor
 B. a price floor but not a price ceiling
 C. a price ceiling and a price floor
 D. a price ceiling but not a price floor
7. Taking account of the search activity, a rent ceiling _____ consumer surplus and _____ producer surplus.
 A price support in an agricultural market _____ consumer surplus and _____ producers' total revenue.
 A. increases; decreases; decreases; increases
 B. decreases; decreases; decreases; decreases
 C. decreases; decreases; decreases; increases
 D. increases; increases; increases; increases
8. An effective rent ceiling _____ a deadweight loss, an effective minimum wage _____ a deadweight loss, and an effective price support _____ a deadweight loss.
 A. produces; produces; produces
 B. does not produce; does not produce; does not produce
 C. does not produce; produces; does not produce
 D. produces; produces; does not produce
9. In a market with an effective rent ceiling, the amount of housing is determined at the intersection of the _____ curve and the rent ceiling. In a market with an effective minimum wage, the amount of employment is determined at the intersection of the _____ curve and the minimum wage.
 A. demand; demand
 B. supply; demand
 C. demand; supply
 D. supply; supply
10. When a price support in an agricultural market is set below the equilibrium price, the price _____.
 A. falls and a deadweight loss is created
 B. does not change
 C. does not change but a deadweight loss is created
 D. rises and a deadweight loss is created

STRAND 3

MACROECONOMICS



Strand Outcome

Learning Outcomes

Upon completion of the different lessons in this strand, students should be able to:

- define Gross Domestic Product.
- differentiate and calculate Nominal GDP and Real GDP.
- identify indicators of GDP as a measure of Economic Growth.
- illustrate the inclusion of circular flow to identify the components of GDP.
- define Market Failure and factors that contribute to market failure.
- explain four major roles of government with local examples.
- use of graphs and statistics to identify trends in government income and expenditure over the last three years.
- define inflation.
- calculate the rate of inflation from published CPI figures, interpret the trend over time and describe procedures used to construct the Consumer Price Index.
- identify, describe and explain the effects of inflation.
- identify policies to combat inflation.

LESSON 3.1 : CALCULATION OF NATIONAL INCOME

NATIONAL INCOME AND INCOME AND EXPENDITURE ANALYSIS

National income is made up of individual incomes earned in the economy, that is, income in the form of dollars that is earned by owners of factors of production, namely:

1. Owners of land earn rent
2. Owners of labour earn wages and salaries
3. Owners of capital earn interest
4. Owners of entrepreneurship earn profits

GROSS DOMESTIC PRODUCT AND NATIONAL INCOME

When a good or a service is bought the money handed over as its purchase price is split up among the owners of factors of production. It should therefore be possible to value national output (GDP) in terms of the income received. In practice, national income output and National Income are rarely absolutely statistically identical. This is why Gross Domestic Product and National Income are terms which are frequently used interchangeably unless the context is strictly statistical.

NOMINAL VERSUS REAL GDP

1. Nominal GDP

Nominal GDP measures the value of output of all final goods and services at **current prices**.

$$\text{NOMINAL GDP} = \frac{\text{Real GDP} \times \text{Price Index}}{\text{Base Year Index}}$$

2. Real GDP

Is a measure of output of final goods and services using the prices that prevail in some base year. It is Nominal GDP adjusted for inflation. It measures the value of all final goods and services produced by an economy in one year measured in **constant prices**.

$$\text{Real GDP} = \frac{\text{Nominal GDP}}{\text{CPI}} \times \frac{\text{Base Year CPI}}{1}$$

Note:

- CPI represents Consumer Price Index which is defined as a standard market basket of goods and services purchased by a typical urban family.

(In Fiji, CPI = 100)

ACTIVITY 3.1.1

Differentiate between **Nominal GDP** and **Real GDP**

ACTIVITY 3.1.2

The following table shows Gross Domestic Product (GDP) for a hypothetical economy.

Use this information and your knowledge to calculate the missing values.

YEAR	PRICE INDEX	NOMINAL INDEX	REAL GDP
1	100	800	(i) _____
2	260	(ii) _____	500
3	286	1716	(iii) _____
4	300	2046	(iv) _____
5	320	(v) _____	937.50

What is the Consumer Price Index?

The Consumer Price Index or CPI is a **weighted price index** and is used to measure changes in the general price level for goods purchased by the average Fijian households. The CPI covers price changes in urban areas (Suva, Lami, Nausori, Lautoka, Nadi, Ba and Labasa) has weights derived from the Household Income and Expenditure Survey.

According to Bureau of Statistics release No. 23, the average annual inflation rate for the twelve months to March 2013 stood at 3.6% compared to 3.3% in March of 2012.

Procedures Involved in Compiling the CPI

- Select the base year and prices of all other years are compared to the base year price. The base number is given the value of 100 or 1 000.
- Select a basket of goods. The basket will consist of a list of goods purchased by average households. The basket contains the following expenditure groups:
 - Food (e.g. bakery products, dairy products, market items such as french/long bean etc.)
 - Alcoholic drinks and tobacco (spirits, warm beer and cigarettes)
 - Housing
 - Heating and lighting
 - Durable Household Goods (e.g. furniture, non-electrical appliances, sports goods etc.)
 - Clothing and Footwear (e.g. women's footwear)
 - Transport (e.g. second hand vehicles)
 - Services
 - Miscellaneous (e.g. medical, laundry goods etc.)
- Gather information on prices of goods in the basket over a time period. The prices must be collected again and again so that price changes can be measured.
- Calculate CPI

Limitation of C.P.I

It does not take into account the market basket of goods and services purchased by all families in the economy.

Measures of C.P.I

It measures the cost of living and calculates inflation rate of the country.

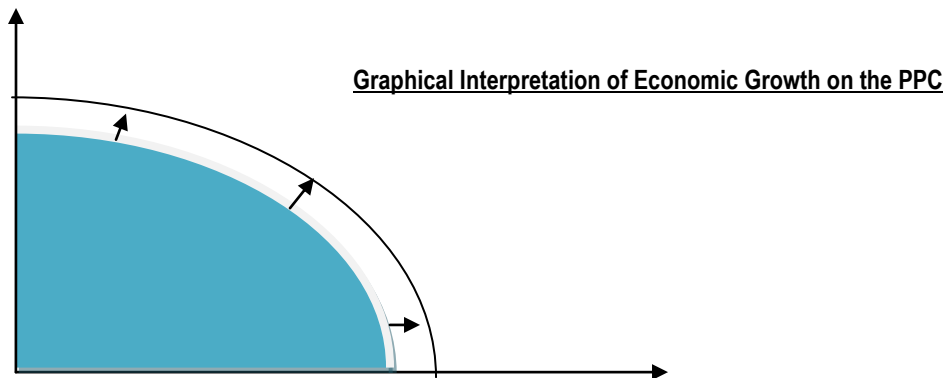
Importance of Real GDP

1. It helps in correcting national income for price changes.
2. It enhances international comparison. But inter-country comparison has some complications.
3. Difficult to compare a developed country with a less developed country because of the differences in the level of economic activity.
4. Differences in consumption pattern.
5. Difficulty in currency conversion.

Economic Growth

It is the increase in Real GDP over a period of time. This means that:

- there are more goods and services available for consumption.
- there is an improvement in the standard of living.
- there is more productivity and employment.
- there is a better quality of life.

**Measurement of Economic Growth**

There are two ways of measuring economic growth:

1. Real GDP

$$\text{Real GDP} = \frac{\text{GDP at Current Price} \times \text{Base Year Index (CPI)}}{\text{Current Year Index (CPI)}}$$

- Also known as GDP at constant price
- It allows adjustments for inflation
- It measures the living standards and the availability of goods and services in the economy.

2. Real GDP Per Capita

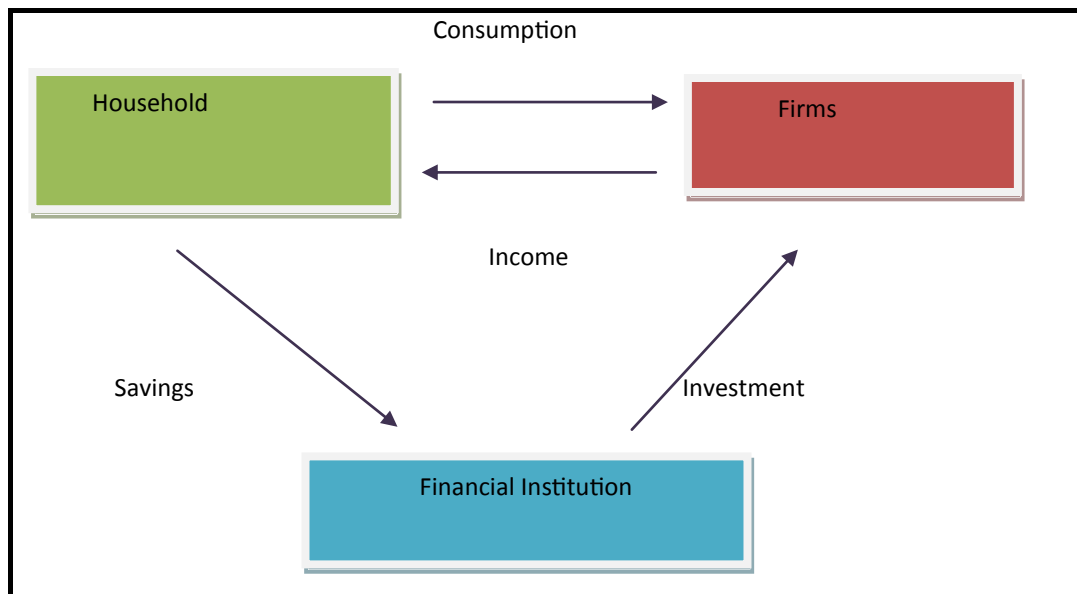
- The real GDP per person/per head

$$\text{Real GDP Per Capita} = \frac{\text{Real GDP}}{\text{Population}}$$

CIRCULAR FLOW

Three Sector Flow Model

- The sectors are Households, Firms and Financial Institutions. These three sectors make up the Private sector of the economy.



National Output

- The total value of final goods and services (both Consumer Goods and Investment Goods) produced in an economy for a period of time.

National Income

- National income is measured as either a value of goods and services produced or as the income earned in production and are expressed in money terms, in relation to the current economic activity in market situation.
- Savings** is part of income that is unspent. Savings is a **leakage** from the circular flow and will lead to a decrease in the size of circular flow leading to a decrease in income, output and employment in the economy.
- Investment spending** occurs when firms add to their stock of capital goods. Investment spending will often involve firms borrowing money from the household savings. Investment spending re-injects the fund that was previously withdrawn from the circular flow model as savings.

- Investment is an injection or addition to income stream in the circular flow.
- It increases the size of circular flow, leading to an increase in income, output and employment in the economy.
- When calculating national output, it is important to include **changes in stock** (capital formation), thus, there is an unintended increase in stock, then:

$$Y = C + I + \text{Changes in Stock (R)}$$

National Output = National Income

$$\text{Output} = C + I + \text{Changes in Stock (R)}$$

$$I = C + S$$

$$C + S = C + I + \text{Changes in Stock (R)}$$

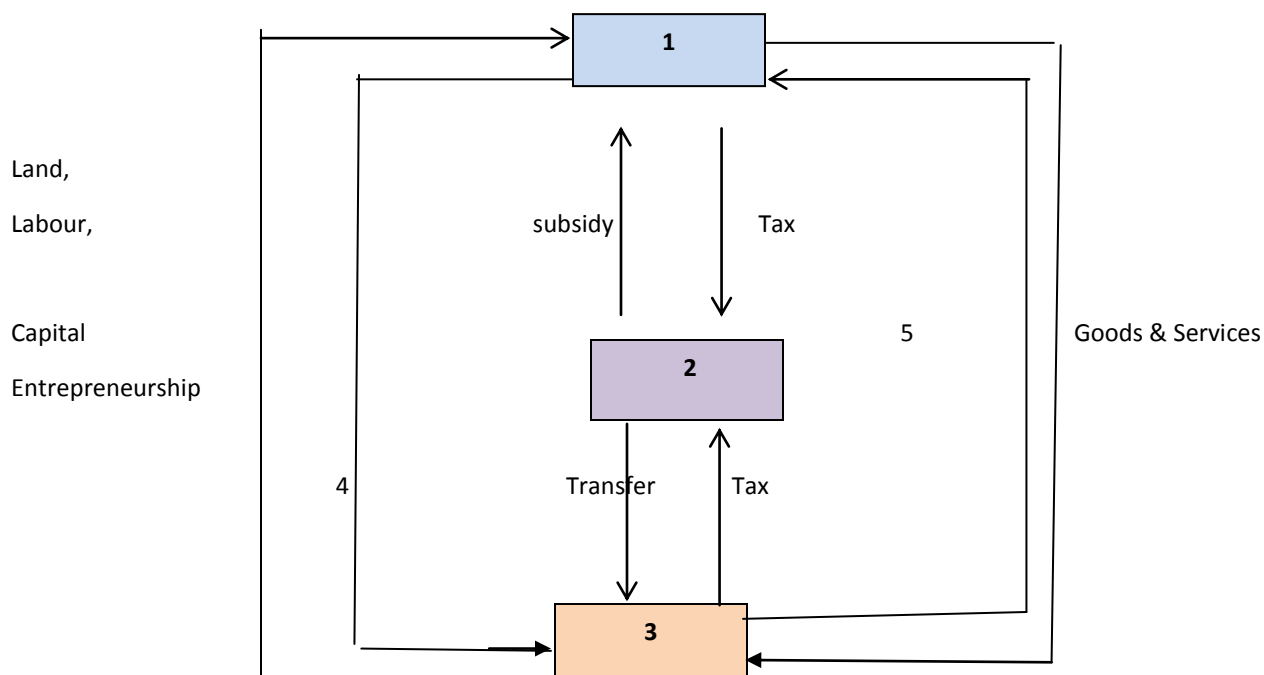
$$S = I$$

Leakages = Injections

Therefore, the Equilibrium condition of a three sector flow model is when **S = I**

ACTIVITY 3.1.3

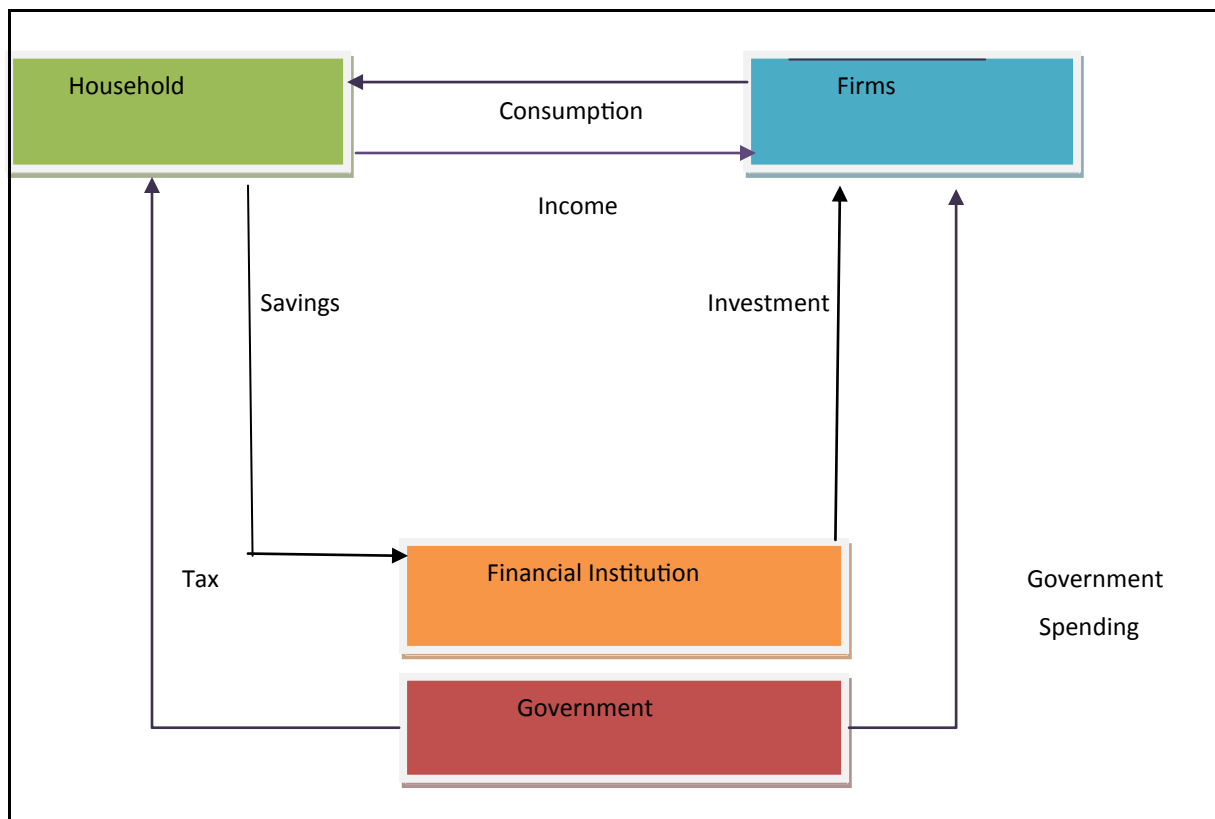
Use the circular flow chart given below and your knowledge to answer the questions that follow.



- Identify the boxes 1, 2, and 3.
- Give an example of Flow 4.
- Define interdependence and state an example from the model above.
- Describe Leakage Effect and give an example.

Four Sector Model

The sectors are Households, Firms, Financial Institutions and Government. The four sectors make up the Domestic Sector of the economy.



Now this model consists of four sectors: Households, Firms, Financial Institutions and Government. The output is made out of two different types of goods- consumption and investment in three sector model. Now we add government goods (G) to consumption and investment.

Government as a body collects **taxes** and spends them on producing collective goods for the benefit of our society. The other government expenditure is on goods and services produced by firms (e.g. Food for hospital patients or on wages and salaries of government employees).

Note:

The government expenditure also includes transfer payments. However, this is not part of injection because it represents a transfer of money from one group to another with no exchange taking place. (Note that: $DY = Y - \text{Taxes} + \text{Transfers}$).

When government produces private goods for sale, the output is sold and classified as consumption and not government goods.

The total government spending (G) is an injection into Circular flow, thus it increase the size of circular flow, leading to an increase in output and employment.

Taxation is a leakage from circular flow. It decreases the size of the circular flow leading to decrease in income, output and employment.

Now: Output = $Y = I + R + C + G$

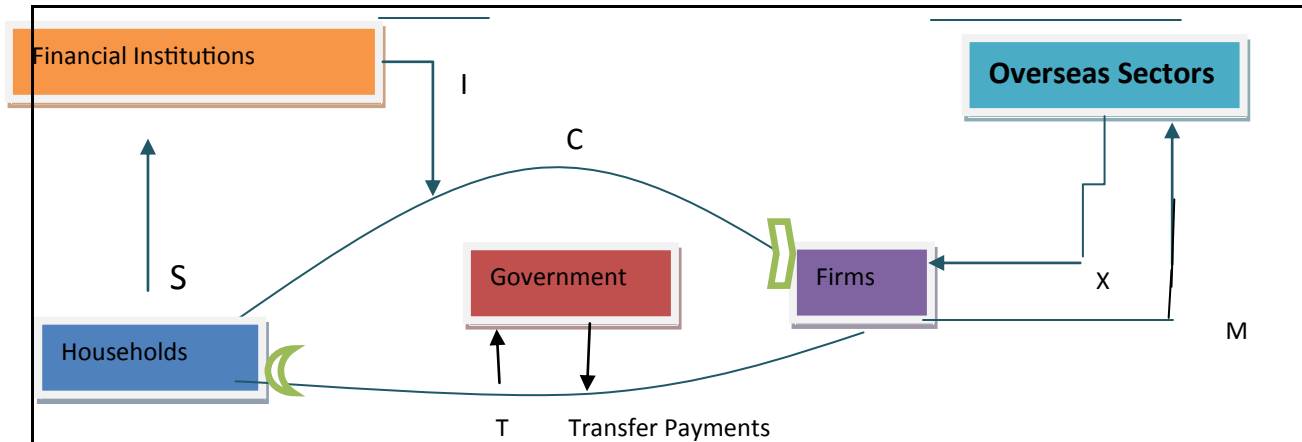
Income = $Y = C + S + T$

Therefore, **$S + T = I + G$**

Leakages = Injections

Therefore, the equilibrium condition of a four sector flow model is when:

$$S + T = I + G$$

An Open Economy**(5 Sector Model)**

- ♦ The five sector model illustrates an open economy, consisting of households, firms, financial institutions, government and overseas sector. The output is made up of three different types of goods- consumption, investment (I and R) and government goods (G) as in the four sector model.
- ♦ Now, we add Exports to Consumption, Investment and Government Spending. Exports are demanded by foreigners and their spending can be thought of as an injection into the economy's circular flow.
- ♦ Note that, our nation's income is used to buy imports (M). To get the accurate measure of what the economy itself produces, the value of imports has to be subtracted. Imports represent a withdrawal from the circular flow model, therefore, giving net exports as (X-M).

Now: $\text{Output} = Y = C + I + R + G + (X - M)$

$$\text{Income} = Y = C + S + T$$

$$\text{National Income} = \text{National Output}$$

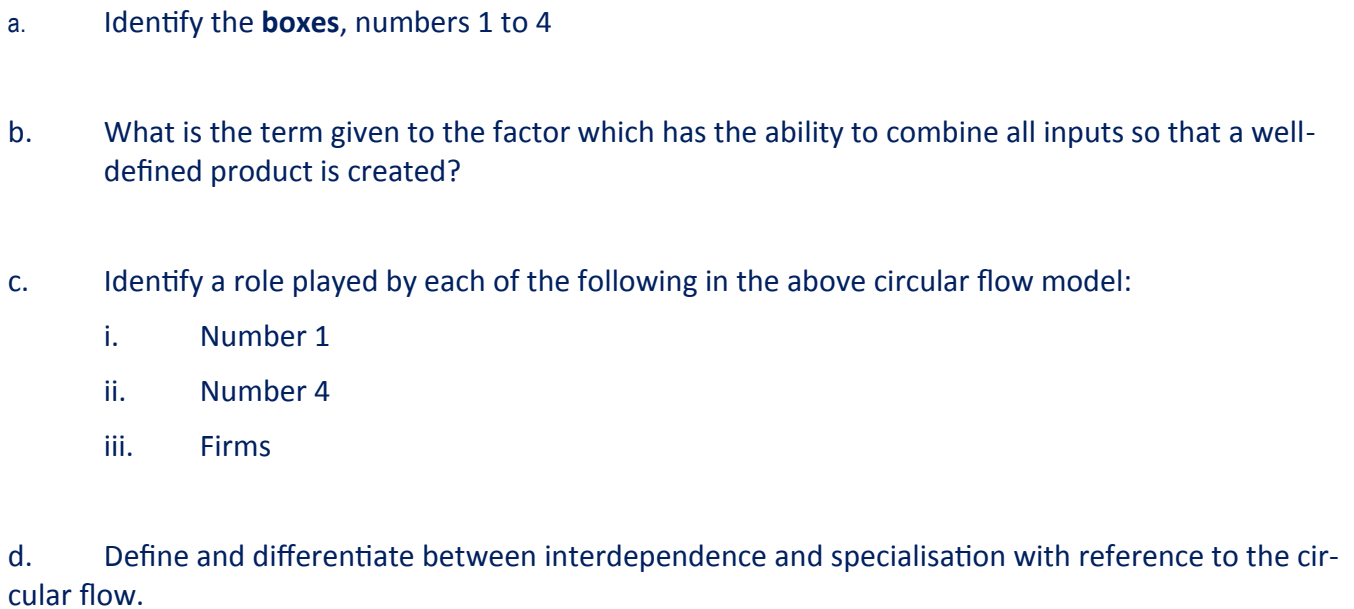
$$I + R + G + X = S + T + M$$

Therefore, $\underline{I + G + X = S + T + M}$

$$\text{Injections} = \text{Leakages}$$

Therefore, the equilibrium condition of a five sector flow model is when

$$\mathbf{S + T + M = I + G + X}$$

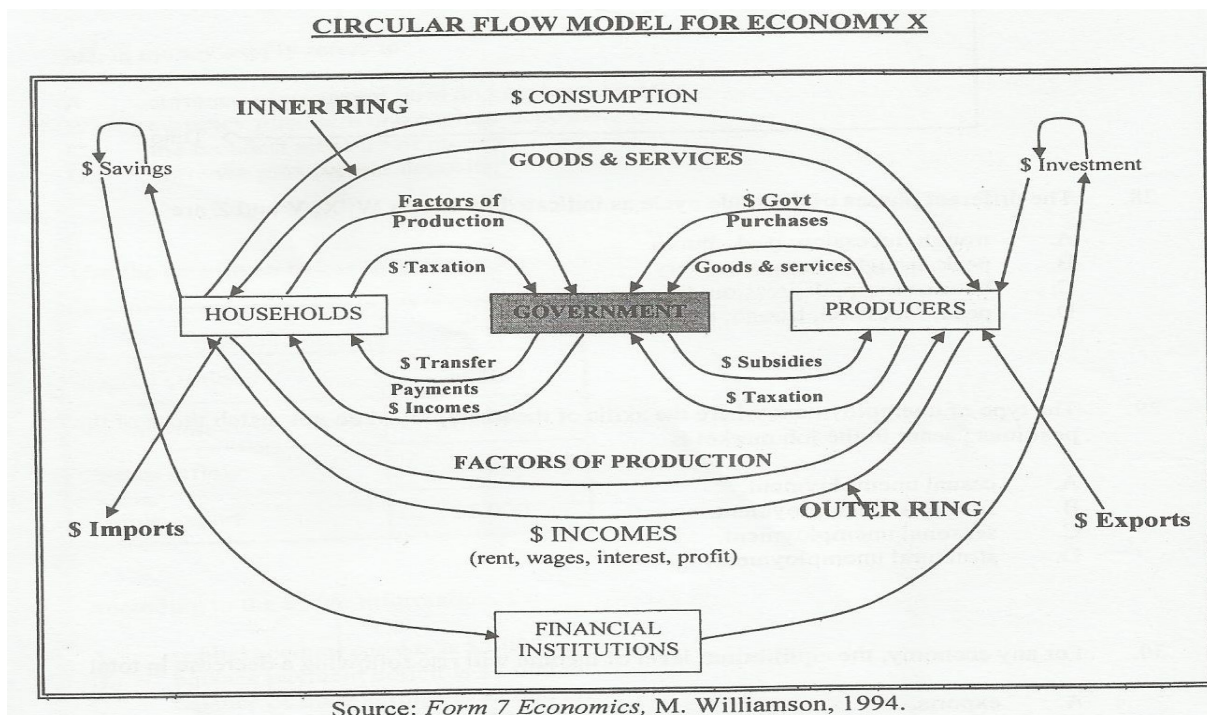


ACTIVITY 3.1.5

- I. Differentiate between factor income and disposable income.
- II. What opportunity cost do households incur when they decide to save?
- III. If the value of imports is not recorded, what effect it would have on the level of income output and employment and the size of circular flow. Explain.

ACTIVITY 3.1.6

Use the information in the diagram given below and your knowledge to answer question.



- i. What is the function of the circular flow model shown above?
- ii. Name the factors of production referred to in the Circular Flow Model?
- iii. Identify the leakages from the model above and explain the effect of increase in the leakages on the level of income, output and employment.
- iv. Explain two concepts illustrated by the Circular Flow Model above.

LESSON 3.2 : GOVERNMENT

IN

THE ECONOMY

MARKET FAILURE

The following conditions must be met if the market is to work well without any government actions (that is, the Invisible Hand to bring about Allocative efficiency):

- ✦ Consumer sovereignty
- ✦ Perfect information
- ✦ Perfect mobility
- ✦ Perfect competition

Public goods and Externalities

Market failure

- occurs when the conditions of the market system to work perfectly are not met, so the price system will not achieve allocative efficiency.
- In other words, the result of the market failure is an inefficient allocation of resources. The market failure can be used to justify government intervention.

Intervention available to government may take the form of :

- ✦ Taxes
- ✦ Subsidies
- ✦ Law, control, regulations
- ✦ Direct provisions of services/ transfers

The aim of government intervention is to help price signals carry the correct information so that the market can work again.

Factors That Contribute To Market Failure

1. Inefficiency

- All firms operate in imperfectly competitive arrangements and perfect competition is not seen in reality.

2. Income Inequality

- The market incomes may not reflect socially desirable outcomes, with the rich getting richer and poor getting poorer. In such cases, inequality is increased and there is a large gap between the rich and poor.

3. Externalities and Public Goods

In real world situation:

- There are goods with external effects on others (that is, associated with externalities).
- There is lack of public goods because the free market has no incentive to produce them as they cannot be sold. This provides justification for government intervention.

4. Price Fluctuations

- The fluctuations of prices in the market lead to the decrease in the firms' confidence in earning profit.
- Therefore, firms are discouraged to produce goods and services resulting in a decrease in total production/output.

Government Formation

- Fiji follows a democratic form of government with the execution of a free and fair election.
- The citizens, through casting their votes for the preferred leader/party to lead the nation, do take part in the process of government formation.
- The political party with the highest proportion of votes then forms the government .

ROLES OF GOVERNMENT

1. ALLOCATIVE ROLE

Task of allocating (assigning/ directing) resources to uses other than what the market decides.

Example:

Provide collective goods (goods that are consumed by everyone- parks, bus stands and public market areas)

The Nature/Characteristics of Public Goods

a) Non-Rival

Meaning that if one person uses the public good, others can also use it at the same time.

b) Non-Depletable

Meaning that it takes no more resources to enable another user to access the public good.

c) Non- Excludable By Price

Meaning that it is not possible to exclude some people from the use of public good, because it is inefficient or unreasonable to do so. Therefore, it is impossible to charge a fee or price for the use of a public good and once in existence, it can benefit anyone who wants to use it.

Others Are:

- i) No price signals.
- ii) No property rights.
- iii) Price system does not work at all.
- iv) Unable to be produced for a profit, therefore, produced by public sector.

Free-Rider

- Is a person, who consumes a good without paying for it, such people would like to have things at the expense of others.
- Consumers think that if they sit back and wait for others to pay; they will enjoy the benefits for nothing.
- If everyone acts like this, with no one offering to pay a price, then the results is that private companies will not bother to produce public goods.

Correct the Market

The market can fail if it does not provide goods and services at fair prices. One way government corrects the market is by making laws to ensure that businesses do not cooperate in deciding prices.

Correct Externalities

- Externality is a cost or a benefit that spillover from the buyer or seller to a third party who is not part of the transaction (that is, consumption/production).
- There can be bad spillover effects (negative externalities) example pollution, passive smoking.
- There can be good spillover effects (positive externalities) example staff training, public transport.
- These externalities can be internalized using government intervention such as: taxes, fines, subsidies and direct government provisions.

2. **DISTRIBUTIVE ROLE**

- The distributive role of government is to adjust the distribution of income among individuals.
- The government can adjust the income among individuals by:
 1. Progressive Tax System: By taxing the rich more than the poor, income inequalities can be reduced.
 2. Providing subsidies on certain goods and services to help poorer people.
 3. Welfare Benefits: Benefits become available in case of sickness, accidents, unemployment, old age, and disability.
 4. Setting minimum wages.
 5. Providing public provisions such as housing, education and health care.

3. **STABILISATION ROLE**

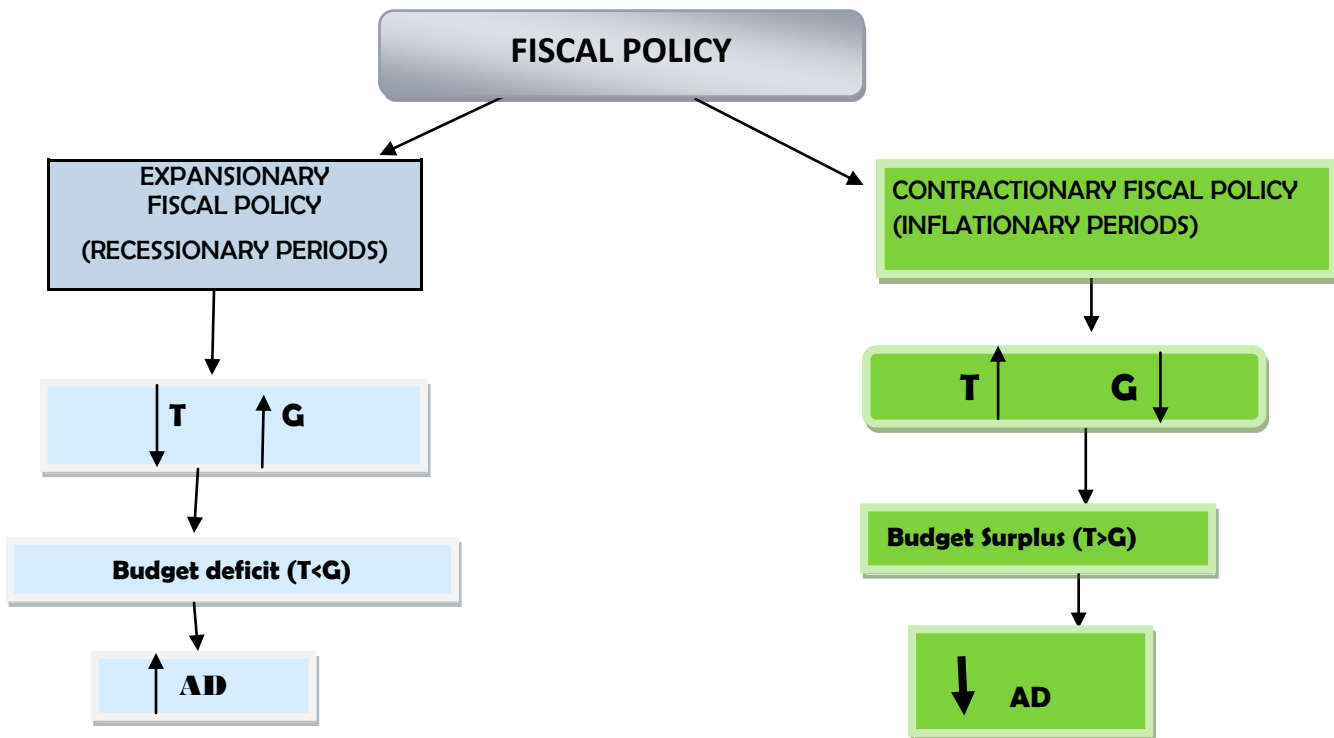
Government has the role of stabilizing the economy to maintain the following economic goals

- i.) Price stability (low inflation)
- ii.) High level of employment
- iii) Steady rate of economic growth

Major Policies The Government Can Implement To Stabilize The Economy Are:

Fiscal Policy

- Also known as the Budgetary Policy.
- Actions taken by government to influence the level of economic activity in the economy. The government has two major fiscal policy tools, that is, taxes (T) and government spending (G). The changes in T and G will influence the level of aggregate demand (AD) in order to meet the government's economic objectives.
- Government employs fiscal policies depending on the economic situations, that is, during time of recession government would employ expansionary fiscal policy whereas in times of inflation government would employ contractionary fiscal policy.



Monetary Policy

- Actions employed by the Reserve Bank of Fiji to influence the level of money supply in order to maintain price stability and provide adequate foreign reserves in the economy.

Monetary Policy Tools are:

i) Open Market Operations (OMO)

- Buying and selling of reserve bank notes in order to influence the level of money supply.
- Buying of securities would increase money supply while selling would decrease money supply.

ii) Statutory Reserve Deposit (SRD)

- Keeping a percentage of deposit and lending out the rest (credit creation).
- Also known as *Reserve Asset Ratio (RAR)*, *Cash Prudential Ratio*, and *Cash Reserve Ratio*.
- When reserve ratio increases, money supply decrease and vice versa.

iii) Interest Rate

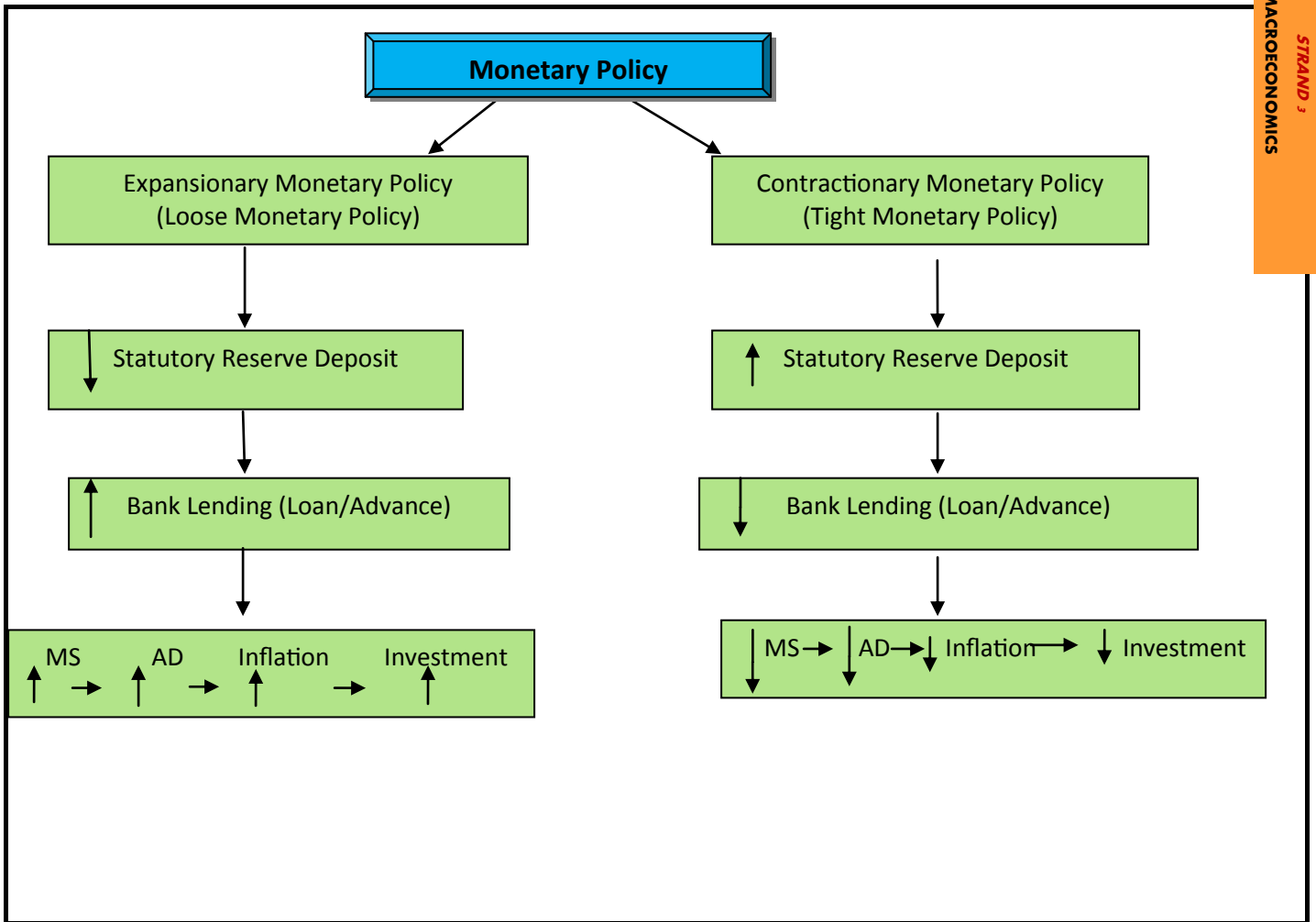
- Influencing the level of money supply by aligning the interest rates set by Commercial Banks to the Reserve Bank's standard.

iv) Moral Suasion

- Refer to the process where the Reserve Bank attempts to influence banking system actions through informal discussions.
- Also known as ***Jaw Boning***.

Printing of Money

Refers to the process of printing new notes and coins which influences the money supply.



4. REGULATORY ROLE

There needs to be some basic rules before the market system can work effectively. Government must establish a legal system that guarantees under law the right to one's own property and set the rules within which business may be conducted. There are laws designed to control how companies and partnerships can act. There are legal penalties for those that defraud others. Laws concerning the sale of goods protect consumers. Safety standards and environmental laws must be met by businesses. Agencies such as Commerce Commission are set up to monitor and enforce government laws.

ACTIVITY 3.2.1

Multiple Choice Questions

(5 m)

1. One of the reasons for Market Failure is
 - A. perfect Competition.
 - B. perfect Information.
 - C. production of private goods.
 - D. production of public goods.
2. In a Free Market, goods with negative externalities will:
 - A. be under produced in the market place.
 - B. be over produced in the market equilibrium.
 - C. have the marginal valuation of the externality reflected in the price
 - D. be produced to the point at which marginal social benefit equals marginal social cost.
3. A key characteristic of a public good is that:
 - A. exclusion in use is impossible.
 - B. there is no way to finance it.
 - C. less is preferred to more.
 - D. property rights can be easily and costly enforced.
4. Free rider behavior can only occur when
 - A. Individuals do offer to pay for public goods.
 - B. Individuals do offer to pay for private goods.
 - C. Individuals do not offer to pay for public goods.
 - D. Individuals do not offer to pay for private goods.
5. Which of the following is not used as an instrument of redistribution?
 - A. Subsidies.
 - B. Transfers.
 - C. Regressive taxes.
 - D. The provision of collective goods.

Short Answer Questions

Differentiate between:

1. Expansionary Monetary Policy and Contractionary Monetary Policy (2 m)
2. Expansionary Fiscal Policy and Contractionary Fiscal Policy (2m)

Essay Writing

Discuss any three Roles of Government with reference to: (10m)
 Allocative, Distributive, Stabilisation and Regulatory.